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S. HRG. 101-418

IMPROVING PUBLIC CONFIDENCE IN SOCIAL SECURITY

HEARING

BEFORE THE

SUBCOMMITTEE ON
SOCIAL SECURITY AND FAMILY POLICY

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

JUNE 2, 1989

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
22-116 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
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S361-9.

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IMPROVING PUBLIC CONFIDENCE IN SOCIAL SECURITY

FRIDAY, JUNE 2, 1989

U.S. SENATE,
SUBCOMMITTEE ON SOCIAL SECURITY AND FAMILY POLICY,
COMMITTEE ON FINANCE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:33 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Daniel P. Moynihan (chairman of the subcommittee), presiding.

Also present: Senator Pryor.

[The press release announcing the hearing follows:]

[Press Release No. H-28, May 18, 1989]

FINANCE SUBCOMMITTEE TO HOLD HEARING ON BILLS TO IMPROVE PUBLIC CONFIDENCE IN SOCIAL SECURITY

WASHINGTON, DC—Senator Daniel P. Moynihan, (D., New York), Chairman of the Senate Finance Subcommittee on Social Security and Family Policy, announced Thursday that the Subcommittee will hold a hearing on two bills aimed at improving public confidence in the Social Security program.

The hearing is scheduled for Friday, June 2, 1989 at 9:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

Both bills to be considered at the hearing were introduced by Senator Moynihan. One bill would remove the Social Security Administration (SSA) from the Department of Health and Human Services and establish it as an independent executive branch agency headed by a bipartisan board. The other would require the Secretary of Health and Human Services to provide periodic account statements to workers to inform them how much they have paid into the Social Security system and how much they and their families could potentially receive in Social Security retirement, disability, and survivors benefits.

In announcing the hearing, Moynihan said, "Social Security is our most important domestic program, a true government success story, and it is vital that we maintain a system in which the public can have full confidence. Establishing SSA as an independent agency administered by a bipartisan board, as it was originally, would improve the public's confidence in Social Security by insulating it from partisan politics and improving administrative efficiency.

"Also, having SSA send out biennial account statements would overcome a problem we currently have, which is that we never hear from Social Security until we become beneficiaries, even though we see money withheld for Social Security from every paycheck. The Canadian government sends out Social Security account statements and they report it has been extremely successful in improving public understanding of their system. I am sure we could expect the same result here," Moynihan said.

OPENING STATEMENT OF HON. DANIEL P. MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. I'd like to welcome our guests this morning, some of the more distinguished persons in the history of our Social Security system and some of the newer, more vigorous advocates.

This is a hearing of the Subcommittee on Social Security and Family Policy, and it addresses two large questions of organization of our social insurance system. There are two bills, S. 216 and S. 1079, and they have related purposes, one being much more significant than the other. First, S. 216 has to do with the organization within the executive branch of the Social Security Administration, a matter which we have dealt with from time to time over half a century.

We have the very distinct privilege of having with us today Mr. Robert Myers, the former Chief Actuary of Social Security who in 1934 worked on the planning group that put together the Social Security Act of 1935—and if ever it could be said of a group that they built better than they knew, it would be of that group—and with him his long colleague and friend, the Honorable Robert Ball, who joined the Social Security Administration in 1939 and served as Social Security Commissioner for 11 years, from 1962 to 1973, longer than anyone else who has held that post.

The Social Security Administration began as an independent body. It had a bipartisan governing board and an administrator, and set about laying the basis of the American social insurance system. It was a small group and a beginning program, and it may have seemed of no great consequence when, after some time, the Social Security Administration was taken down from its independent status and put under an umbrella agency later to be called the Department of Health, Education and Welfare, and now Health and Human Services. Of course, the very existence of such a department was a statement about the acceptance in American national life of the initiatives that we associate with the New Deal. They were now to be institutionalized.

That seemed reasonable at the time because still Social Security was a rather small activity. Only a few persons had entered the retirement stage, and it was not until the Eisenhower Administration that disability insurance was added, and SSI in 1974, and with the maturing of the Social Security System activities of the Social Security Administration became very large indeed.

And even as they reached the point of today where the budget of the Social Security Administration is 62 percent of the budget of the Department of Health and Human Services, you could almost not find the Social Security Administration in the administrative hierarchy of the Department. Typically the Commissioner works in Baltimore and is just not very much to be seen.

The office of Commissioner has declined from the unequaled elegance and efficacy of Robert Ball's tenure and the majestic years with Robert Myers, who taught actuarial science to the world from his eminence as Chief Actuary of Social Security. We have come down to a succession of perfectly well-meaning but essentially ineffective administrators. In 16 years we have had 10 administrators of Social Security, 10. I recall one young man in the Carter Admin-

istration who, in the saying of the military, simply punched his ticket as head of Social Security. He left the Secretary's office, went over there for 12 months, got that on his resume, and then opened a law firm, which took me, as I recall, to the floor of the Senate to say, "Now what has happened to the sense of public service here?"

Well, one of the things that happened is the organizational reality that this extraordinary program which provides monies for 39 million people every month—39 million people—which collects them from 125 million people, has no real identity or independence. And the need for this was recognized with great clarity in the report of our National Commission on Social Security Reform in 1983 when a bipartisan commission, headed by Alan Greenspan, now the Chairman of the Federal Reserve, and including the distinguished Republican leader of the Senate, we endorsed the proposal that we return to an independent agency, perhaps headed by a bipartisan board. We convened a study group headed by our very able, former head of the GAO, Elmer Staats, which suggested perhaps a single executive with an advisory board. That's something reasonable persons can clearly argue about and differ with intelligence.

But the fact is that something needs to be done because there is a great problem that has emerged. First of all, in substance the trust funds are in some important sense unguarded. In 1985 this Committee learned that the Treasury Department had in effect taken enormous sums of money out of the trust funds and used them for the general purposes of government.

It can be said of the amounts of money that they are so large that they are nonindictable. Nobody can be indicted for removing $28 billion from a trust fund. As my distinguished friend and former Governor and an attorney, Mr. Pryor, would know that if you took $28,000 from a trust fund, the probability is jail. But $28 billion in 1985; $10 billion the previous year, 1984. Well, these sums have no meaning in the normal range of experience.

But the most important thing is that when this was done, no one was told. It was done in circumstances where the Secretary of the Treasury had a difficult choice to make. He was up against the debt ceiling. He had to have cash and he could not borrow it. It was a dilemma that was real. But it was one that being real, all the more should have been shared with the Congress, elementally shared with the Secretary of Health and Human Services, surely told to the Social Security Board of Trustees, of which the Treasury Secretary is one, the Secretary of Labor another, and two public trustees which we established in 1983. Not told to anybody. Why? Because there was no organizational imperative to do the elementally responsible thing.

In 1983 we moved Social Security to a partially funded basis—we had been on a pay-as-you-go basis—but only to see Social Security surpluses spent and not saved. The surpluses, of course, should be used to increase saving and provide for the retirement of the baby boom in the next century. And the Social Security trust funds now rise at $1 billion a week, but that has not imposed any sense of responsibility on the Office of Management and Budget to see that the money is saved. To the contrary, the Treasury has used it as if

it was general revenue. They issue a debt certificate to the trust funds, but spend the money for whatever purposes are at hand. And, depending on your political dispositions, you can say they spend it on battle ships or the spend it on food stamps. I do not know which. But they spend it on things other than that for which the money was collected to be put in trust.

Not surprisingly, confidence in our Social Security System is very low. In the late 1970's a nationwide public opinion study that was conducted by Peter D. Hart Research Group found that 61 percent of non-retired adults had little or confidence that the Social Security would be there when they retired, 61 percent. In 1985 the very distinguished firm of Yankelovich, Skelly & White found that 66 percent, two-thirds, of non-retired adults thought it unlikely that they would see their retirement benefits.

Now when people think about government, they must look to its reputation. What does it say of America, of our public, that as much as two-thirds think the government takes this money from them and will never give it back. I mean, you know, there is a word for that. I think Senator Pryor would find a word for it in court. And if that is the case, we have to respond.

A measure that we think will help, and we have introduced this bill, would be to mail out to Social Security contributors on a periodic basis a statement of what they have contributed, what their employer has contributed, and what, at the rate they are going, they could expect in the way of a retirement benefit, a disability benefit, death, survivors benefits, and such like. This is easily done. The technology is well within our hands.

The Canadians do it beautifully. We will hear about them later on. The government of Canada has been hugely cooperative, and Mr. Donald Walsh, who is the head of the division of Canada Pension Plan that makes those arrangements, will testify later on. The largest expense in Canada is the price of the stamp. I mean, it is easily done.

And you can see a pattern where a young person in their 20s will look at the piece paper and wonder what it is and throw it away immediately. And a person in their 30s will look at it and put it somewhere but lose it. By the time you are 40 you will have a drawer where you start putting this thing, and then you will start thinking about what this means to your future, and you should be able to do.

I guess I joined Social Security in 1942 and they have been taking money from me ever since. But whether they know I exist, I have no evidence of that fact. Well, actually I do. I wrote in and asked them. I had to write them three times, but I did get an answer and they do have my name. But if you do not ask, you are never told.

And so, these are the purposes of our hearings. We do this in one last context, if I can be indulged one more time. Something is afoot in the land that wants to, on the one hand, plunder the Social Security trust funds and, on the other hand, play to a strangely latent and easily aroused sense of fear about the equity of the system, about its dependability.

We have seen an element of demagoguery that this field has never before known. We had to hold a hearing early this year on

the so-called "notch" question. The issue of the notch—I can reveal something and I do not know if it has been printed. If there is anybody here that would like to print it, I welcome them do. If C-Span would record it, I wish they would. Among the candidates in the Iowa Primary for President of the United States in 1988, the issue of the notch was known as "the question that came from hell." It aroused passions as nothing else, and it could not be explained to the satisfaction of audiences anywhere.

An altogether spurious proposition, but demagoguery had brought it to the point of a national issue. I think we settled it earlier this year in our hearings. But still, had this been addressed with some executive energy in the early 1980's when it began to appear, we could have been spared all that.

But there is no executive energy in the Social Security Administration. It in no way claimed the attention and time of the people who would have to make the decision. And so we find that right now that program, which you might properly consider our most successful of all the social initiatives of the 20th Century, is the one most assailed with charges of wrongdoing, inequity, and indeed worse, real charges of bad faith and illegality.

Which is a large subject, but this is a large committee, and we have large witnesses before us, and this lecture hereby ends.

I am very happy to have my distinguished colleague, the able Senator from Arkansas, former Governor of Arkansas, to open our hearings as in the traditional courtesy of the Senate.

[The prepared statement of Senator Moynihan appears in the appendix.]

Senator MOYNIHAN. Senator Pryor, good morning, sir.

OPENING STATEMENT OF HON. DAVID PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Senator Moynihan, Mr. Chairman, thank you.

Not only are you today one of the chief advocates and the chief architects of the saving of the Social Security system—I say that with no reservation—you are also a friend. You are a colleague. To some degree, we are even co-conspirators in one or two issues. But you are also a professor, Professor Moynihan, and we always learn from you. And to be able to sit at this side of the table and listen to you give us a history of this issue puts everything into perspective, and I do not think anyone can begin to match your eloquence, Mr. Chairman, in this area. And I thank you for that opportunity——

Senator MOYNIHAN. You are very generous, Senator.

Senator PRYOR [continuing]. Not only to be here, but to listen to you.

I think what you are attempting to do, to create an independent agency, is a concept whose time has come, and I deeply appreciate the opportunity to join with you in this effort.

Recently the Social Security Administration was probably considered the flagship of all Federal agencies for efficiency and quality of public service. SSA, in my opinion, has lost that reputation for excellence and problems continue to mount.

A hearing that I recently held as the Chairman of the Special Committee on Aging revealed that SSA is presently, today, at-

tempting to shift much of its business to a badly overburdened and often inappropriate toll-free telephone system. When people from the State of Arkansas pick up the phone and ask about their Social Security problems, they may be speaking to someone in Buffalo, New York, where they have to bare their soul and bare their records. The program is being impersonalized and dehumanized.

Further, we uncovered that millions of Social Security recipients' numbers have been verified for private companies such as credit bureaus and banks, all, in my opinion, in strict violation of the Privacy Act and against previous SSA policy.

We must, I think, move very rapidly to stop this trend toward a deteriorating quality of management. I therefore share your belief that one way to accomplish this is to now make SSA much more independent. The bill that you have introduced, Mr. Chairman, S. 216, points the Congress, I think, in the right direction: increasing the independence and improving the management of the SSA which operates the most successful program in the history of the Nation, and perhaps of the world.

As perhaps you know, Mr. Chairman, in previous Congresses I have sponsored similar legislation, and would like at this point to take this opportunity, Mr. Chairman, to ask you to add my name on as an original co-sponsor of S. 216, your bill.

Senator MOYNIHAN. I will do so with a great sense of appreciation and would ask if I might have the same privilege of joining you on your representative payee bill.

Senator PRYOR. Thank you, Senator. I am very flattered to have you as a co-sponsor.

Anything else we can co-sponsor with each other this morning? [Laughter.]

Mr. Chairman, I think that this is long overdue. I think it would increase, as you say, public confidence in the system. It will demonstrate to every American that this Congress considers the program above the politics that change from administration to administration, from year to year, from whim to whim.

Beyond the fact that SSA should be administered by high-caliber public servants who have a strong commitment to their work and the people they serve, we must assure that the administrators of this important program are freed from the unnecessary and inefficient political pressures.

When you discussed a moment ago, Mr. Chairman, about—I think you said in the last 16 years, we have had 10 administrators?

Senator MOYNIHAN. Yes, sir.

Senator PRYOR. I would like to put in the record that during the last 8 years that during 3 of those 8 years we had acting commissioners and not full-time, full-fledged confirmed commissioners.

Senator MOYNIHAN. Yes, yes.

Senator PRYOR. Because the Social Security system is so large, representing 21 percent of the Federal expenditures in fiscal year 1989—and so vital—as you mentioned, 39 billion people receive benefits, and a 130 million pay into the system—that it deserves, I think, to be administered by its own agency. As you mentioned also, it was originally an independent agency.

While there is no question that we must insulate SSA from political concerns, we must also ensure that it remains accountable.

This is a tough balance to find. And I think just to make it independent—I am first to admit—if we make it independent, that in itself is not an end. If we create a new board, that in itself is not an end. SSA must be accountable, and we must remain mindful first, not only of its mission, but of the constitutional implications of our approaches to ensure independence.

We created, for example, the Postal Commission back in the early 1970's. I am not so sure that the postal service is better because of that today, or perhaps if it is worse. But I think some of the mistakes we made in that creation, we might learn from some of those past mistakes as we move forward in this issue.

Finally, Mr. Chairman, I think independence of the judicial appeals process within SSA is critical. This, in my opinion, is part of the soul, it is part of the soul of the Social Security program that in my opinion has attempted to be subverted and dismantled in the last decade. The independence of the appeal process has turned into an adjudicative nightmare. The independence of the ALJs has been threatened, and we have seen in the past an assault on millions of disabled individuals who could not argue their case, and the ALJs were threatened at the very top with their positions and their careers. We must address this particular issue.

Mr. Chairman, I think too that we must keep in mind that experts remain divided on how to structure the leadership of an independent agency. That is so important as we move forward in this debate. We must consider that debate. I know we will, and I think that we must strive to find the most prudent management of Social Security to benefit the millions of Americans who participate and who will be participating for generations to come.

Mr. Chairman, I have a longer statement I would like to have placed in the record, if possible. That concludes my statement. Once again, I appreciate being able to join you in this effort.

[Senator Pryor's prepared statement appears in the appendix.]

Senator MOYNIHAN. We are very much in your debt, Senator.

May I ask just a couple questions?

You are Chairman on the Committee on Aging. With respect to the leadership, you are asking the question do we want to have a three-person bipartisan panel, or do we want to have a single executive. A good question, which we will just have to reason among ourselves, but I think we accept the proposition of an independent, free-standing agency.

Senator PRYOR. Right.

Senator MOYNIHAN. Two, would you share an opinion I have—it cannot be more because it is impossible to get the facts—that during the 1980s the Social Security Administration began to respond to just plain budgetary pressure from OMB to start cutting back on disability benefits.

Do you have some feeling of that kind?

Senator PRYOR. I have been in several hearings, Mr. Chairman, on that issue, and I know that you have. Back in 1980, Senator Bellmon of Oklahoma was a Member of the Senate.

Senator MOYNIHAN. Yes, sir. A very distinguished Senator.

Senator PRYOR. Late one evening—if I can reconstruct a little legislative history—Senator Bellmon got up on the floor. He did not make long speeches, and he said, "We ought to do something

about those who are drawing benefits to check them out and see if they are qualified and eligible to receive those benefits."

Well, this was done, and before you knew it, this was written in granite, and it became the Bellmon mandate. I think if we called now-Governor Bellmon in Oklahoma City and said, "Governor, what did you really intend by this?", I do not think that he would have intended what did happen ultimately through the edicts of OMB.

Senator MOYNIHAN. Right, through the edicts of OMB. That is right.

Senator PRYOR. And that was where the OMB directed, mandated, the Administration to go for it, and this is the point also where the ALJs basically were called on the carpet——

Senator MOYNIHAN. ALJ is "Administrative Law Judge."

Senator PRYOR. Absolutely.

They were basically called on the carpet and they had, just like AFL–CIO and the U.S. Chamber of Commerce and the conservatives and liberals and whoever rates us, they rated these poor ALJs out there, Mr. Chairman, all over the country. They had a rating sheet for them. "How many times did you hold for the Administration? How many times did you hold for the claimant?" And they tallied up all these percentages and whatever, and those people that held for the claimant too many times, they were literally called on the carpet.

Senator MOYNIHAN. Yes.

Senator PRYOR. Their careers—the SSA denies this—their careers basically were put in jeopardy and their professional careers were threatened. In other words, get in line and start putting more of these people—take them off.

Senator MOYNIHAN. And that is the equivalent of the Office of Management and Budget stating that there are going to be fiscal outcomes of an adjudicatory process which was designed to establish what is just and fair.

Well, that is outrageous, and yet there is nobody there to be outraged, or nobody was. I can tell you—I do not know about Arkansas—but in the Southern District of New York, some of the disabled people were able to get lawyers and appeal beyond the administrative law judge, and the United States attorney for the Southern District of New York finally said, "I will not defend the government in court." Now that is a big statement. "No, I will not defend the government." That would not happen if an agency was standing on its own feet and had a Congress it could come to and say, "Listen, you make the law. We are going to—." You know, it is not a question that the money was not available. It was a question of OMB did not want it spent, or so I think. I do not assert it. It is just that the possibility is horrendous.

And one other thing. Would you not say that the agency has submitted to actual directions from the Office of Management and Budget to cut its size in the most extraordinary manner? They cut 17,000 jobs out in the last few years—17,000 jobs, Mr. Secretary—well, you know, from a very lean agency. But I suppose the fewer people who are there to hear complaints, the fewer complaints, you know, the fewer restitutions—I do not know the reasoning. But closing offices, cutting staffs, behavior never explained to the Con-

gress, and I doubt ever even heard of by the Secretary of Health and Human Services.

Would you not agree with that?

Senator PRYOR. Mr. Chairman, 10 years from now if a person—well, 10 years from now I will probably be out of here drawing Social Security, and if I want to go to the local Social Security office in my hometown down in south Arkansas—Camden, a wonderful little community, 17,000 people—they all vote for me, anyway——[Laughter.]

There is not going to be a local Social Security office.

Senator MOYNIHAN. Yes.

Senator PRYOR. If I want to talk to anyone about my claim, I am going to have to pick the phone and dial some 1-800 number.

Senator MOYNIHAN. Someone with an accent, speaks with an accent from Buffalo.

Senator PRYOR. They may have. They may even have a Southern accent. They may be from South Carolina or somewhere like that or from Buffalo, New York. Who knows?

I am going to have to bare my soul. I am going to have to get all my papers out and say, "Here is what my income was," and all this. And once again, we are dehumanizing this service.

You know in former years there was a link between people in my hometown and the seven or eight people that worked in that little office. They knew the claimant.

Senator MOYNIHAN. Yes.

Senator PRYOR. They had raised their children together. They probably sang in the choir together. They knew what their own situation was. We are losing that, and when we lose that, we lose the confidence, I think, and the credibility and sort of the soul——

Senator MOYNIHAN. And we see that in the fact that almost two-thirds of non-retired adults do not think they are going to get Social Security.

Senator PRYOR. And back to the disability. I held a hearing in the early 1980's, about 1982 probably, Mr. Chairman, and I will never forget. I had a witness there—Dr. Sullivan now will appreciate this—and this was a little lady that had been cut off and denied her benefits. She had been told by Social Security that she could get a job as a secretary and as a typist. Well, she appeared before our Committee, before our hearing—we had 700 people there, Fort Smith, Arkansas, and I never will forget this little lady. She came in there. Her gas, her water, her electricity had been cut off. She had no source of income. She was legally blind and had one arm, and they said, "You can be a secretary." Now this happened hundreds of thousands of times, and it happened to people who did not know how to defend themselves, and I hope we do not repeat it.

And I think you are on the right track, Mr. Chairman, and I do not want to take further time of the Committee. I know Secretary Sullivan here will have a good statement. I hope he supports us, by the way, in our effort.

Senator MOYNIHAN. The—I—well, we will see. [Laughter.]

Senator, we so very much appreciate it.

Senator PRYOR. Thank you, Mr. Chairman.

Senator MOYNIHAN. You have been right where it really matters on that Committee.

If you have a moment to join us, it would be wonderful. But if you do not, we know you have other things to do.

Senator PRYOR. Well, I would if I might, if I could just listen to what the Secretary——

Senator MOYNIHAN. Please, sir.

Senator Pryor. —has to say because I will be very interested.

Thank you.

Senator MOYNIHAN. It is your committee too.

Senator PRYOR. Thank you.

Senator MOYNIHAN. And now for the unenviable task of representing the views of the Office of Management and Budget, we hear our good friend who has made such a fine impression on all of us here in the Congress and this Finance Committee.

Dr. Sullivan, we had you here just yesterday. We do not want you to think that you are going to spend your entire life before the Finance Committee, but these are matters—yesterday morning you were seeing the intense public anxiety over catastrophic health insurance. This is a more general proposition.

So we welcome you, sir. We look forward to your testimony.

Perhaps I might just say, I will put it in the record as if read, and you can either read it or summarize it or exactly as you wish, sir.

STATEMENT OF HON. LOUIS W. SULLIVAN, SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Secretary SULLIVAN. Thank you very much, Mr. Chairman and Senator Pryor.

I certainly also appreciated that very fine historical overview about the Social Security agency. I think that it is a very important part of our governmental responsibility, and I think that it is very good to have that reviewed and those comments.

As usual, I am very grateful for the opportunity to appear before this Committee to discuss a number of programs, the one yesterday on catastrophic health insurance and today concerning the organization of the Social Security Administration.

Let me begin by indicating that none of us, the President nor I nor members of the Congress nor the Social Security Administrator nor our staffs, disagree that the goal of Social Security should be to provide high quality service to the American public. That is what our Department is for, and we are certainly committed to that.

We agree that we must do everything possible to achieve that goal and maintain the highest standards of public service at the Social Security Administration. I am committed to that in my role as Secretary. I am committed to excellence in all of our programs, both those involving maintaining and strengthening our health care system, and those programs concerned with economic security for all Americans.

As you know, Mr. Chairman, one of my top priorities has been, and continues to be, the implementation of the jobs regulations, and we were very pleased that we were able to get those regulations out on time.

Senator MOYNIHAN. Indeed, you did. Not that they were uniformly well received, but you have to start somewhere, and you did.

Secretary SULLIVAN. Yes, sir. Thank you.

And we are, as you know, meeting with two of the Governors next week to have some discussions about their concerns.

Senator MOYNIHAN. And you and I discussed a meeting with Mr. Cesar Paralis of the American Public Welfare Association.

Secretary SULLIVAN. Yes.

Senator MOYNIHAN. We thank you for your openness in these matters, Mr. Secretary.

Secretary SULLIVAN. Thank you.

It is our position, however, that making the Social Security Administration an independent agency is not in the best interests of the American people. We believe that making the agency independent would be counterproductive.

There are several good reasons for keeping the Social Security Administration within the structure of the Department of Health and Human Services. First, separating the Social Security Administration from the Department of Health and Human Services would undercut the President's role as manager of the Executive Branch. Second, it would weaken important links with other HHS agencies. Finally, independent agency status would eliminate many administrative economies inherent in a large government department. For these reasons the Administration opposes making Social Security Administration an independent agency.

In my opinion the Social Security Administration will best function by remaining part of the Department of Health and Human Services. I would like to comment on these three points in greater detail.

As you have indicated, Mr. Chairman, the Social Security program was administered in its first years as an independent agency. By 1939, before actual payment of monthly benefits began, it became an integral part of the Federal Security Agency, the forerunner of the Department of Health and Human Services.

The FSA was established to group agencies with related missions under common leadership in order to coordinate policy making, management, and operations. At that time it was wisely recognized that it was impractical to expect the President to manage directly all of the major programs and agencies of the Federal government without having them grouped under Cabinet officers.

However, proposals to re-establish the Social Security Administration as an independent agency arose in the 1970s as a result of a concern on the part of some that Social Security policy decisions were being dictated by partisan political and short-term budgetary considerations and that SSA faced serious systems and organizational problems. Yet, during the discussion of these proposals, aside from some first-person testimony, there was no factual evidence indicating that making Social Security Administration independent would improve its capacity to do its job more effectively. To the contrary, there are clear disadvantages to establishing SSA as an independent agency.

First, separation would weaken the President's management of the Social Security Administration. Bill S. 216 purports to establish SSA as an independent agency with limited Executive Branch ac-

countability, but such actions directly undermine the role of the President as Chief Executive and his ability to develop coherent economic and social policies for the Nation.

As a Cabinet member the Secretary of Health and Human Services reports directly to the President, who is turn directly accountable to the electorate. The President and the Secretary of HHS are thus in an excellent position to provide policy leadership on Social Security issues.

Moreover, the independent agency proposals under consideration would weaken SSA's ties with Executive Branch support agencies under the President's leadership. Those agencies have the expertise and the resources to help SSA with its space and procurement needs, in the case of the General Services Administration, and with its personnel needs, in the case of the Office of Personnel Management.

I even question the need to link management with separation. From a public service perspective SSA's performance overall in getting its work done is significantly better today than it was a few years ago. This has recently been recognized in March by the General Accounting Office, who remarked that "our improvements"—and I quote—"are already paying dividends."

In fact, I am informed that business consultant Tom Peters, coauthor of the book "In Search of Excellence," is planning a television special for sometime this summer in which the Social Security Administration is the only example of a well-managed public sector entity. The other examples he cites are all in the private sector.

With the help of systems modernization and streamlined processes and procedures, the Social Security Administration generally has eliminated its work backlogs and now provides quicker, more accurate service to beneficiaries. The improvements SSA has made in the quality of service and efficiency refute arguments that independent status is essential for administrative or operational reasons. Of course, there are some management problems that remain at SSA, but these problems can be solved with strong management and are being addressed.

Let me restate this point from my perspective as a physician. We do not need the meat-ax approach of bureaucratic amputation when the surgical skills, or better management, are a more appropriate prescription with plastic surgery.

Second, separation would weaken important links with other agencies. These links are valuable to SSA and the public it serves. The Social Security Administration benefits from its close ties to other agencies under the HHS umbrella. Conversely, separation may threaten the timely service of programs for the elderly, undermining the very intent of our work.

As you know, many agencies in HHS are concerned with issues closely related to those dealt with by the Social Security Administration. To name a few, the Administration on Aging funds social services for the elderly. The National Institute on Aging is concerned with health programs for the aged, and the Health Care Financing Administrations, Medicare and Medicaid programs, are vital in providing health care to older citizens and persons with disabilities.

Local Social Security offices also serve as a one-stop shop for the elderly. Typically beneficiaries of Social Security benefits receive information regarding the Medicare program through their local Social Security office. Local offices also perform outreach, providing local community groups with opportunities to learn about Social Security and Medicare programs.

Moreover, as a catastrophic health insurance program is implemented, these links between Social Security programs and Medicare will become even more important and less amiable to separation. The Department's catastrophic coordinating committee is currently involved in planning the implementation of this new program. The Social Security and the Health Care Financing Administration are represented on this committee, allowing for important cross-agency coordination and communication.

These links even extend beyond programs for the elderly. Few remember that the programs administered by SSA also impact our youngest citizens, many of whom are in poverty. Separation would undermine their ability to coordinate services with HHS programs. For instance, at the end of Fiscal Year 1988 children accounted for 9.2 percent of all disability beneficiaries. Similarly, by the end of Fiscal Year 1988 4.8 percent of retirement and survivors' insurance benefits were received by children. Benefit payments to those children totalled approximately $11 billion in Fiscal 1988.

Due to either the disability or the death of a parent, Social Security's child beneficiaries are among those who are particularly reliant upon the services and programs available through the HHS network. Both the Head Start Program and the Administration on Developmental Disabilities provide targeted assistance to disabled children.

Children of deceased workers might also receive cash assistance through the Aid to Families with Dependent Children program, AFDC. The Supplemental Security Income program also provides assistance to children. Approximately 290,000 blind and disabled children were receiving SSI payments at the end of 1987. Entitlement to old age survivors and disability insurance and SSI child's benefits also allows our youngest citizens to access to Medicare and Medicaid programs.

SSA also serves as a primary gateway to information concerning other programs. The SSA is an especially key contact point for younger beneficiaries who may not be receiving the wide range of information about benefits the aged receive from private organizations. Any breakdown in SSA's gateway function to other HHS programs would prove detrimental to both children and older beneficiaries.

The vital link forged between SSA and other HHS agencies will become more critical in the future. As the aging of the baby-boom generation occurs, more policy and service coordination between our agencies will be necessary, and there will be a growing need to coordinate the cash payments provided through OASDI and SSI programs with the health services and social services provided through all parts of HHS.

Finally, the removal of the Social Security Administration from the Department of Health and Human Services would eliminate many of the administrative economies inherent in a large govern-

ment department, requiring the expenditure of trust fund monies for the establishment of duplicative and expensive payroll, personnel, and other support structures now operating efficiently with the Department.

In fact, separation of SSA from HHS might create a bureaucratic and fiscal nightmare, wasting precious fiscal resources accumulated in the trust funds and perhaps even endangering the viability of those trusts. In other words, as Secretary Bowen stated to this Committee some 2 years ago I believe, "If it ain't broke, don't fix it."

To this point I have only discussed the broad problems of separation, but now I would like to focus on a unique issue raised by the particulars of S. 216. The fact that independent status would in no way help SSA do a better job and would create serious new problems for the agency are sufficient reasons to oppose S. 216. However, independently the bill is fatally flawed in creating a bipartisan, three-person executive to head SSA. Independent agency status would cause serious problems for SSA. A plural executive would almost certainly prove as ineffective as the initial Social Security Board.

The 1984 Congressional Study Panel addressed this issue and recommended that SSA, if made independent, continue to be headed by a single administrator. The General Accounting Office has also testified repeatedly that it believes the more effective form of leadership for an independent Social Security Administration to be a strong, single administrator at the head of the agency, assisted by an advisory board on policy matters that would have no role in SSA operations.

In addition, S. 216 provides for an SSA executive director appointed by, and primarily responsible to, the three-member board. In contrast to current law the administration of the Social Security programs would be carried out by an individual selected without either the advice or consent of the Senate or nominated by the President. The nation's largest domestic program would thus be run by an individual neither accountable to any elected official or the American people.

A Social Security Administration governed by a three-member board also raises questions regarding the constitutionality of the legislation. In particular, the Administration is concerned by Section 101(b)(1) which states that the President would be able to remove members of the board only for "neglect of duty or malfeasance in office."

An attempt to limit Executive Branch oversight of SSA's statutory duties and responsibilities by restricting the President's removal authority raises serious separation of powers concerns. Restrictions on the President's removal power over such officers impede the exercise of the President's constitutional obligation to "take care the laws be faithfully executed."

The bill also directs the board to report on certain matters to both the President and Congress and to report with respect to other matters exclusively to the Congress. These concurrent reporting requirements also raise serious practical as well as constitutional concerns.

Mr. Chairman, you have also requested that I comment on the other bill, S. 212——

Senator MOYNIHAN. That is correct.

Secretary SULLIVAN [continuing]. Which would require that SSA implement in three phases a program to mail personal earnings and benefit statements to all workers. As you know, Commissioner Dorcas Hardy announced in August of last year an SSA initiative to provide personalized earnings and benefit estimate statements to ail workers upon request. Thus far, over 10 million workers have asked for the form to request an earnings statement and over 5 million workers have returned the completed request.

There are two basic reasons why earnings statements are currently available only upon request rather than to everyone as S. 212 would require. First, SSA systems of records have current addresses for beneficiaries, but not for people still working. This is a concern, not only because some workers might not get their statements, but also because mail delivered to the wrong address increases the potential for confidential, personal information to get into the wrong hands.

Second, there is concern that benefit estimates based on automated projections or future earnings might be much less reliable, particularly for workers many years away from retirement age, than benefit estimates based on the workers' own projections of future earnings. Allowing workers to provide their own estimates of earnings and the address to which the statement should be mailed avoids both problems.

Mr. Chairman, we are continuing to explore alternatives for issuing SSA initiated statements. The objective is a process that will give the public the information it wants and can most readily use, will distribute the statements in a manner that safeguards confidentiality, and yet is as cost effective as possible and will keep SSA workloads manageable.

To achieve this, we believe strongly that we must test the various options fully before settling on a final design. Because no statement content or distribution methodology is clearly without problems, SSA plans to conduct several tests, beginning with the first one this July, to focus on those issues. We are concerned about confidentiality even during the test modes. So one version will use blank forms, rather than personal information, to test the reliability of the addresses. Other tests will involve distribution of statements through several large employers with whom we will negotiate special arrangements for safeguarding the information released to the individual Social Security number holders.

We will be happy to provide information regarding the results of the tests to this Committee as they are conducted. We believe, however, that it would be premature to enact legislation requiring statements to be sent to all workers before ways are found to secure good addresses to ensure the privacy of the information and to estimate earnings in future years.

In conclusion, I would reiterate that the Bush Administration, like prior administrations of both parties, strongly opposes separating the Social Security Administration from the Department of Health and Human Services and making it an independent agency.

Indeed, if this legislation were to reach the President's desk, I would recommend that he veto it.

In regard to benefit statements, we are working to find ways to provide reliable statements to as many workers as possible. Therefore, we do not think legislation in this area is needed at this time.

That concludes my statement, Mr. Chairman, and I am very pleased to have this opportunity to testify.

[The prepared statement of Secretary Sullivan appears in the appendix.]

Senator MOYNIHAN. We thank you, Doctor, and we are more than sensible of the claims on your time, so we will not keep you at length. But I do want to ask a couple of things.

First of all, and sensible, as is the practice and has been for more than a half century, testimony of this kind is cleared with the Bureau of the Budget, now the Office of Management and Budget, but sir, on Page 16, you say to us that "Any attempt to limit executive branch oversight of SSA's statutory duties and responsibilities by restricting the President's removal authority raises serious separation of powers concerns. Restrictions on the President's removal power over such officers impede the exercise of the President's constitutional obligation to 'take Care the Laws be faithfully executed.' Article I, Section 3."

Now I do not want to start a panic on Wall Street just before the end of the closing hour, but are we to understand the President wants to take away the fixed terms of members of the Federal Reserve Board? Is this the beginning of an assault upon independent agencies? Does Alan Greenspan know that his tenure is in jeopardy?

Do not answer, sir. [Laughter.]

I mean quite seriously, is this a new position from OMB because I suppose, you know, it can be made, that no one should serve in the Executive Branch, save at the pleasure of the President. But if the Federal Reserve Board members are not going to serve—they are appointed for 12-year terms. The chairman is appointed for a 4-year term.

Is it the view of the Bush Administration that they serve at the pleasure of the President?

Secretary SULLIVAN. Mr. Chairman, if I could comment, my comments, frankly, are limited to the Social Security Administration here, and we do feel that it is very important that this administrator, which is a very important agency, as you have indicated and Mr. Pryor has indicated also, be a person nominated by the President and approved by the Senate. So there is really that executive and legislative oversight process concerning the selection of that individual.

Senator MOYNIHAN. I am not a lawyer, and of course, neither are you, but I do know that the law of certain persons, such as my distinguished colleague, is keep your case very narrow before the judge. You have been walked up here to tell us that a common administrative arrangement in Twentieth Century American government, national government, is unconstitutional.

Senator Pryor?

Senator PRYOR. I have no questions of Dr. Sullivan. I tell you what I am tempted to do, Mr. Chairman, is one of these days—and do not answer this——[Laughter.]

One of these days, I want to find out when witnesses come before this or other committees in the House or Senate, what impact OMB has on your positions or your ultimate statements that you read to committees of the Congress. Now I am not going to ask that now, but someday I think that would be an interesting hearing.

I thank Dr. Sullivan——

Secretary SULLIVAN. Senator, I will not——

Senator PRYOR [continuing]. And I thank you, too, Mr. Chairman.

Senator MOYNIHAN. Why don't you make up a question you would like to answer? [Laughter.]

Secretary SULLIVAN. Well, I would like to comment, Mr. Chairman, on the perspective that the agency is lost within HHS or is not given——

Senator MOYNIHAN. Yes.

Secretary SULLIVAN [continuing]. Sufficient attention to indicate the following. We take our responsibilities in oversight of the Social Security Administration very seriously, and let me recite for you some examples of that.

First of all, we have weekly meetings of our senior staff, which includes our Social Security Commissioner, where there is active discussion of various issues. We do have an office for the Commissioner of the Social Security Administration within the Humphrey Building, though as you have noted, the majority of our employees are in Baltimore.

As you know, I was confirmed before the Senate on March 1. Within the first 2 weeks of my confirmation, although we have, as you know, a large number of things that we must address attention to, I visited Baltimore, visited our employees in the Social Security agency.

I have also, thus far, of the 10 regional offices that we have scattered around the country, have visited seven of those offices thus far and have in those visits talked with and met with our regional Social Security Commissioners. In our policy discussions, issues concerning the Social Security responsibilities play a very active role. So we do view our role in the Department as really representing vigorously those interests of the Social Security Administration.

We are very much aware this is our largest agency. It has a number of issues that are of concern to all Americans, older Americans as well as children, as I indicated in my statement. We believe that because our Department is concerned with a number of income security and health and welfare programs that there is inevitably many cross-linkages and many coordinating programs between those. And we do believe that being part of one department where we have task forces within the Department to provide that coordination that this really serves very well, and we do believe that this would disrupt those coordinating functions if this were to occur.

I am not sure what has happened with your telephone service since AT&T broke up. But I can tell you, I have had personally many problems, which fortunately are getting better, but as a

result of our disruption of that for the legal and antitrust reasons, and also, of course, the Post Office Commission has not been exactly a model of the result of, you know, plural executive, their commission.

So we think that we have a good system. I also indicate that we have not closed any Social Security offices. We do not intend to. We have installed the 800 line as another option that is available for those people who may, for a variety of reasons, either infirmity at home or other reasons, may choose to use that telephone system. But we still have our offices open and our employees there so that an individual client has the option available to them as to whether they want to go in person to an office, or whether they want to use an 800 number. So that is a new option.

So we feel that there have been many things that I could cite more where our administrative efficiencies have increased, and therefore, we believe that we are not frankly given credit for those things which we have worked hard to provide to the American people and also be aware of trying to operate as efficiently as possible.

Senator MOYNIHAN. Sure. That is a very fair-minded statement and I appreciate it. I do not want to presume on my time around this place, but we welcome you to Washington. You have made such a marvelous impression. I do hope you do not think there is any credit to be got for what you do in this city. [Laughter.]

It is honor. [Laughter.]

Senator Pryor?

Senator PRYOR. Are we about to have a nominee for Commissioner of Social Security, SSA?

Secretary SULLIVAN. Yes, we are. The precise date, I frankly cannot give you because, as you know, the tedious background checks and financial disclosure reviews, et cetera, that all of our individuals have to go through, that is underway now. But we have indeed recommended an individual to the White House, and that name, I believe, will be coming forward as soon as that process——

Senator PRYOR. Well, I am sure that notwithstanding what happens to Senator Moynihan, I know I can speak for all of us, in saying that when that nominee comes, we want to expedite his or her confirmation process.

Secretary SULLIVAN. Yes.

Senator PRYOR. Because I need not remind you, Mr. Secretary, that one-eighth of the Bush Administration is over, you know. We are into June. I am talking about if there is a 4-year term. [Laughter.]

So time is running and——

Secretary SULLIVAN. Do you want me to comment on that, sir?

Senator PRYOR [continuing]. And we see this throughout the Department of Treasury, the Department of Commerce. We see these huge holes out there, and I think it is critical that those be filled.

Thank you, Mr. Chairman, and thank you, Mr. Secretary.

Secretary SULLIVAN. Thank you.

I would also point out that indeed while we will have a new name coming forward, our present Commissioner is still in place, still working——

Senator MOYNIHAN. Sure, sure.

Secretary SULLIVAN [continuing]. And still participating in all of the administrative activities and policy development.

Senator MOYNIHAN. And may I just say in closing that I appreciate your reference to Ms. Hardy's, Dorcas Hardy's, initiative in making the income earnings and records available. That was an admirable and very nicely carried out exercise, and she has done her best in difficult circumstances and that deserves to be acknowledged by this Committee as it was by you and it was very gracious of you to do so.

And Doctor, thank you very much, and we will look forward to the nominee, and as Senator Pryor said, we will hold a hearing immediately, and I cannot imagine you will have any difficulty at all.

Secretary SULLIVAN. Thank you, Mr. Chairman and Senator Pryor.

Senator MOYNIHAN. Now we are going to move on to a very distinguished panel of persons who have between them almost a century of involvement with this subject and our guest from Canada. Our panel of wise men consists of—we will just read down; we just took the alphabetical order; it does not matter—Hon. Robert M. Ball, who is former Commissioner of Social Security, Mr. Robert J. Myers who was present at the creation, as the saying has it, and Mr. Donald Walsh, who is the Director of the Record of Earnings and Contributor Information Services of the Canada Pension Plan.

Mr. Walsh, this is the first time that I am aware that a Canadian official has appeared before our Committee, and I see that you are accompanied by Mr. Michel Belanger, who is your assistant, and behind you is Ms. Colette Beauregard.

Ms. Beauregard, would you come to the witness table, too. We would like to have you there, or—unless Mr. Walsh prefers you to be behind him so you can whisper in his ear? [Laughter.]

Sure, we want to have you here just to welcome you. This is something that has not happened before. I hope it will happen again soon.

Bob Ball, set to.

STATEMENT OF HON. ROBERT M. BALL, FORMER COMMISSIONER OF SOCIAL SECURITY, WASHINGTON, DC

Mr. BALL. Mr. Chairman, this morning in addition to testifying for myself, I am representing the Save Our Security Coalition——

Senator MOYNIHAN. Yes.

Mr. BALL [continuing]. SOS, as it is known. It represents over 100 organizations that have about 40 million members, roughly divided evenly between those who are currently contributing to the program and those who are drawing the benefits. The Coalition has a large number of labor unions, senior citizens groups, disabled groups, church groups, and charitable organizations.

Senator MOYNIHAN. A group well and favorably known to this Committee, sir.

Mr. BALL. Thank you, Mr. Chairman.

I have a rather long statement that I would like to submit for the record, and——

Senator MOYNIHAN. All statements will be placed in the record as if read, and then you can read it as you wish.

Mr. BALL. And I will try to summarize rather quickly the major points and leave for questioning——

Senator MOYNIHAN. Yes.

Mr. BALL [continuing]. Other things that you may want to bring out.

Let me say first that I think the case for an independent agency, regardless of how it is set up, whether a single administrator or a board, can be made entirely on administrative grounds. As the Grace Commission pointed out, an agency of this size, affecting just about every American home and with over 60,000 employees and 1,300 district offices around the country, is large enough to have its own services of all sorts. It has personnel, budgeting, financial services and so on.

But if you have at the Secretary's level also the same sort of services, the better the people are at the Secretary's level, the more they will want to be involved in the decisionmaking process of the lower-echelon agency. Duplication, therefore, is almost an inevitable result of the kind of organization that now exists. So I do not want to spend time on that basic issue; the case for an independent agency is quite overwhelming just in administrative terms.

But, Mr. Chairman, the importance of the board setup as compared to a single administrator goes way beyond the question of the most efficient form of organization. I believe it would make a big contribution to the restoration of confidence in the system to have the responsibility for policy development and the administration of this program under the direction of a bipartisan board.

The board form of organization emphasizes the trustee character of Social Security. It emphasizes the fact that people are building today rights that in many instances will be not be exercised for 40 or 50 years in the future. With both parties represented the board form emphasizes that day-by-day administration will be completely separated from political considerations. Instead of having a direct line of political appointees you have the kind of independence that emphasizes the separateness of the program from partisan political considerations.

I would say, though, that I do not believe you would want to push—and the bill does not—the degree of independence of the board to such a point that it would be comparable, say, to the Federal Reserve Board. I believe that a board form of organization for the Social Security Administration should still leave the President in charge of the approval of legislative recommendations, for example.

Senator MOYNIHAN. Yes, yes.

Mr. BALL. And the relationship with the control agencies in general can be much as with a department. I do think that Social Security can do a better job of its own space procurement and its own——

Senator MOYNIHAN. May I stop you there? That is important.

Mr. BALL. Yes.

Senator MOYNIHAN. Should that be provided in statute?

Mr. BALL. In your bill, Mr. Chairman, as you know, you have provided for demonstrations of a considerable degree of independence in personnel and space management, and although I am ready to say it would be okay to move now, I think your idea of a demon-

stration—trying it out—is probably sound. So you and the other sponsors of the bill do have that very much in mind.

Along with the goal of restoring faith in the program that you get from a board is also an assurance that you will avoid the big swings in policy that have taken place in Social Security in the last 10 years. I just do not believe it would have been possible under a board form of administration for a situation to develop where hundreds of thousands of disabled people were thrown off the rolls and then a very large proportion of them put back on the rolls when the cases eached the hearing stage—or the development of a situation where literally hundreds of cases were overturned by Federal judges, and a very large proportion of the Governors refused to carry out their contract agreement with Social Security to make disability determinations because they were so opposed to the policy directives of the agency.

A board would not have adopted such policies. And if they had, by any chance, the minority member of the board with any backbone would have been alerted to their policy at the very beginning, called a press conference, and called it to the attention of the Congress, and you would not have put up with it.

It is not only very dramatic things such as the disability debacle that a board organization would have prevented, but a board organization would have given more stability to more mundane matters of policy. I do not believe, for example, that there would have been such a large number of reorganizations of the Social Security Administration staff as have recently occurred, reorganization which take a lot out of the ability of staff to concentrate on their work. But the succession of commissioners, many of them coming in for very short terms, very frequently moved to reorganize the whole set-up within Social Security. A board would not do that.

Or take the question of this big reduction in staff which had been going on—17,000 people by the end of the fiscal year 1990 if the Administration's policies are followed. There should have been some reduction in staff as a result of further automation. That is perfectly proper and correct.

But I think a board would have said, "Do we have the level of service in place that we should have? Do we want to put all the savings from automation into a reduction of staff? Do we want to do everything we can just to save administrative money or can we do a better job? The cuts were worked out, more or less, by an agreement between the top people at Social Security and OMB to put all the savings that were predicted into a reduction in staff, and then the agreement was arbitrarily carried out without a real matching of the implementation of the automation with the timing of the staff reductions——

Senator MOYNIHAN. Well, it is not as if you had a real problem of overhead. You did not.

Mr. BALL. No, the program is operating at roughly 1 cent out of a dollar of contributions for administration.

Senator MOYNIHAN. Yes.

Mr. BALL. It is true that in the most visible workloads in Social Security, those that the public sees, the case can be made, as the GAO has, that as compared with a few years ago the public reac-

tion to service is good. But there are many workloads in Social Security that are not so visible to the general public.

Post adjudication, so-called—the questions that you brought up earlier, Mr. Chairman, of looking into the disability cases that have been diaried to determine whether people are still eligible. When staff is short these questions get pushed aside. The public does not object. You may be spending more program money in Social Security by saving administrative money because you are not looking carefully at cases that really should be taken off the rolls.

You get these big swings from overharshness to a lack of attention to cases that should be looked at. And you have other workloads not covered in surveys of public attitudes such as this whole representative payee situation. Social Security has the authority to appoint people as representative payees without going to court and——

Senator MOYNIHAN. Senator Pryor was concerned about that.

Mr. BALL. Yes.

And representative payees have to be carefully monitored. You have to be sure that those people are really accountable for the money that they are spending on behalf of someone else.

These things and many others can not be measured by going around and asking a sample of people whether they think they were well treated in the Social Security office. You have to look at the total workload. I believe a board would have said, "We do not want to take all of these cuts just to save a little bit more administrative money when the administrative costs are so low. What we ought to be looking at is the level of service plus our ability to process all the workloads—making sure that we are not saving administrative money and losing program money."

So in one instance after another, Mr. Chairman, I think a board organization is the right way to go, not a single administrator.

Now I do have one suggestion on the board setup and its relation to the executive director that you may want to consider. Those who favor the single administrator as the head argue that a deadlock or conflict might develop between, say, the chairman of the board and an executive director, who has a set term and who has defined duties under the Act.

I would propose that you should make it clear in the bill that the board is in charge—that is the way it was in the original board. You could have the board appoint an executive director working under their direction and serving at their pleasure. I do not think that would mean a lot of turnover in executive directors. If you go to the trouble of selecting a good person, you are not going to get rid of him or her lightly.

But it is conceivable—I think unlikely, but conceivable—if the executive director has a fixed term, you might get to the place where there is some difference between the board and the board and this executive director. I think it should be clear that the board is in charge.

With that, Mr. Chairman, I would like to turn very briefly to the other bill and say that the Save Our Security Coalition is also very much in favor of the bill to require the Social Security Administration to make available on their own initiative statements to individuals about their wage records and estimates of their future ben-

efits. I believe this too would add greatly to confidence in the program.

As you have pointed out, you have contributed many years and you have never heard from Social Security. That is, of course, true of millions and millions of people. I think it was a great step forward for the Social Security Administration to furnish estimates of future benefits on request, but I do not think it is enough. I think they should on their own initiative furnish such statements to participants.

Now some people have said, "But why make it a matter of law? Why not just ask the Social Security Administration to begin to do this?" There is a good reason to make it a matter of law, and the reason is money.

It always helps a Federal administrator seeking funds to perform a function to have a statutory base for the function when going to OMB and asking for money. Otherwise, it is just another idea of the administrator that he would like to do something which then comes into conflict with everything else that people want to do. But if he has a statutory function to perform, you at least put him or her up a couple of steps in the argument with OMB about funding that function.

So I would think that it is important to keep it in the bill, that you should not be talked out of it on the ground that, "Well, we would like to do this kind of thing anyway. You do not need to make us." I think it is helpful to them over time to have it in law.

I am somewhat regretful about the timetable in the bill. I assume that Social Security feels they cannot get to sending out these statements to everybody until about the year 2000. I understand why they would want to be cautious, but I hope that over time the date could be speeded up and that this action, which I believe would help a lot in making people realize how important Social Security protection is to them, can be taken more quickly.

There is a great undervaluation of the significance of Social Security protection in the country. It is not only that somewhere around 50 percent do not think that they will get the benefits at all, but the 50 percent who do think they are going to get them do not realize how good the protection is. They do not realize, for example, that the benefits are going to be kept up to date with wages up until the time they start to receive them. I think most people know that they are protected against inflation after that, but they do not realize there are automatic provisions keeping protection up to date throughout their working careers.

People need this information for their own planning. To what extent do they want to have savings in addition? To what extent do they want to buy life insurance? Their whole financial planning is based on Social Security, but they do not have a good understanding of what they will get.

So, Mr. Chairman, I believe your two bills together would add greatly to the feeling of security about Social Security, and there are many other goals of the bills that are also very important.

As you suggested in your opening statement, the shift from the almost total authority of the managing trustee, the Secretary of the Treasury, to a board managing the fund that would have as its sole interest the protection of Social Security funds as against the

kind of conflict of interest that a Secretary of the Treasury gets into is also an important point. And there are others, but I think I have taken enough time.

Thank you.

[The prepared statement of Mr. Ball appears in the appendix.]

Senator MOYNIHAN. You never take enough time in this Committee, but we could not more agree, could not more appreciate. Why don't we just hear everybody, and then you can comment on each other and we will get some comment from here.

Robert Myers, welcome again, sir.

STATEMENT OF ROBERT J. MYERS, FORMER CHIEF ACTUARY AND DEPUTY COMMISSIONER, SOCIAL SECURITY ADMINISTRATION, SILVER SPRING, MD

Mr. MYERS. Thank you, Mr. Chairman.

First, I would like to thank you very sincerely for the nice things that you said about my work, going back to 1934. All I can say is that I was very fortunate to be in the right place at the right time in 1934.

I think that you would also be interested to know about a coincidence in connection with the visit of Mr. Walsh from Canada. This is a matter of rather belated reciprocity. In 1965, when Canada was considering the adoption of the Canada Pension Plan, I was honored by being asked to testify before a Senate committee of the Canadian Parliament to describe our Social Security system. So, I certainly welcome having Mr. Walsh here.

Senator MOYNIHAN. Isn't that serendipitous?

Mr. MYERS. I believe that the two bills introduced by the distinguished Chairman would greatly improve confidence in the Social Security system. I would mention some information that I have about public confidence which is a little more optimistic than the figures that the Chairman quoted.

An annual survey made by the American Council of Life Insurance shows that the proportion of respondents who are not too confident or not at all confident in the future of the system rose from 37 percent in 1975 to about 68 percent in 1982–84. Then, presumably because of the successful 1983 legislation in which the distinguished Chairman played such an important role, the lack of confidence decreased to 45 percent in 1988. That still leaves a long way to go, but I think that the Chairman's two bills will certainly help out in that respect.

Senator MOYNIHAN. May I say that was my fault. I should have called attention to that. I just was moving too quickly. People do notice. People did respond to that 1983 legislation. Something happened.

Mr. MYERS. As the Chairman has said, the Social Security Administration was originally an independent agency with a bipartisan board, and this continued until 1946. Since then several groups, including the National Commission on Social Security in 1981 and then the National Commission on Social Security Reform in 1983, recommended that this independent-agency basis should be restored.

One of the difficulties with the current organizational structure is that it produces an excessive number of layers of responsibility and authority for programs which represent such immense social and financial magnitude. The making of decisions is often excessively slowed down by such layering of authority. As a result, necessary and desirable action is often delayed so long as to be useless.

One very good example of this is the infamous notch that the distinguished Chairman mentioned. When I returned to the Social Security Administration in 1981 as Deputy Commissioner, I developed and worked out with the staff a method that the problem could at least be greatly alleviated. That proposal could have been enacted in 1981, except there were so many levels of authority that it never got up to the top to get approval in time. It would have partially remedied the situation, not by giving more to the people born after 1916, but rather preventing the excessive bonanzas that people born before 1917 got by working beyond age 62.

Senator MOYNIHAN. You would have had some pretty grateful members of the U.S. Congress. [Laughter.]

Mr. MYERS. By 1983, it was really too late to do anything, but the situation would have been greatly relieved if action had occurred in 1981.

Senator MOYNIHAN. There you are. You know a problem is coming. You have an idea what to do with it, but you cannot—you are too many layers away from where they say yes or no.

Mr. MYERS. Exactly.

I would go even further than the bill as to the organization of the Social Security Administration into an independent agency. I would include Medicare in the new independent agency so that we have one organization or one institution that handled all of our social insurance programs. After all, Medicare and OASDI really are closely integrated programs.

I would suggest one change in the bill that I think would prevent the proposed agency from being too independent and would answer some of the criticisms that have been made here today about the proposal. As the bill establishes the bipartisan board, the members have 6-year terms on a staggered basis. The result could be that, at one time, a majority of the board could be of the opposite political party from the President of the United States. This could, I think, create undue squabbling and so forth.

Senator MOYNIHAN. Don't we have a two-party representation, sir?

Mr. MYERS. Yes, the board would have to have two parties on it, at least one member from one party and two from the other. The problem is that the two members could be of the opposite party from that of the President.

Senator MOYNIHAN. Oh, just the—you have a Republican president and the majority on the board is Democratic.

Mr. MYERS. Yes.

Senator MOYNIHAN. Yes.

Mr. MYERS. What I would suggest as a solution is that the chair should always be named by the President, and the chair's term should be coterminous with that of the President. Then, the other two members would be appointed on a staggered basis and be of

different parties. In that way, the board would always have two members who were of the President's party.

Senator MOYNIHAN. Would you have the goodness to put that—just write that down for us and send it along to the committee?

Mr. MYERS. It is in my statement, Mr. Chairman.

Now, as to the proposal to provide earnings and benefit estimates on an automatic basis, I think that this is very desirable. This was recommended by the National Commission on Social Security in 1981. It is necessary and desirable to phase it in, as you have done, because it is a big job. I think that the Social Security Administration is to be congratulated on what they have already done on a voluntary basis.

Senator MOYNIHAN. Yes.

Mr. MYERS. There is, however, one serious flaw in the present procedure, and I would hope the bill would do something to prevent this. In computing the projected benefits the SSA assumes that earnings rise in the future, with real earnings rising at 1 percent per year. So, the benefits that are shown are rather high in terms of real dollars, until one realizes that the earnings on which they are based are also higher. I think that the statement should have shown for the projected retirement benefits also what the final earnings of the individual were assumed to be. The important thing, as you well know, as to Social Security benefits is not their absolute dollar amount, but rather what their dollar amount is relative to final earnings. So, I would like to see a provision in the bill that not only should retirement benefits be projected, but also the final earnings on which those retirement benefits were based should be shown.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Myers appears in the appendix.]

Senator MOYNIHAN. And have someone make a realistic judgment about, "is that going to happen to me?"

We have not had a 1 percent real growth in earnings for the last 15 years. In 1987 real family income just got back to the 1973 level, as you know.

Mr. MYERS. However, in the assumptions underlying the benefit projections, just as in the actuarial cost estimates for the program, it is assumed that earnings rise more than prices. That assumption has been built into the projection, which I think is desirable, but people should realize that in the benefit estimates which they are getting, particularly younger people, with retirement 30 or 40 years off, their real earnings are also assumed to be higher. They should therefore be able to compare the benefits with their final earnings and realize their relative financial position. Otherwise, some people may think that they will get so much from Social Security that they do not need to do anything else for themselves.

Senator MOYNIHAN. Ah.

Well, shall we ask Mr. Walsh how they deal with that question in our neighbors to the north?

And again, welcome, sir. I was so pleased to hear Mr. Myers say that this is reciprocity here. It is very generous of you and Mr. Belanger and Ms. Beauregard to come down, and this is an important occasion for us.

STATEMENT OF DONALD F. WALSH, DIRECTOR, RECORD OF EARNINGS AND CONTRIBUTOR INFORMATION SERVICES, CANADA PENSION PLAN, INCOME SECURITY PROGRAMS BRANCH, DEPARTMENT OF NATIONAL HEALTH AND WELFARE, OTTAWA, ONTARIO, CANADA

Mr. WALSH. Thank you very much, Mr. Chairman.

We are very pleased to be here this morning and welcome this opportunity to share with you our experiences with our Contributor Information program. I prepared a brief overview of our program and would like to quote from this booklet.

Senator MOYNIHAN. It will be placed in the record, and we also have—you provided us a Contributor Information Program briefing book, which is your sort of manual, your office manual, and I would like to have that placed in the record also. It is a very useful sort of explanation of how you go through things.

[The information appears in the appendix.]

Mr. WALSH. Thank you, Mr. Chairman.

As you are aware, Mr. Chairman, the Canada Pension Plan is a compulsory program not unlike the Social Security scheme here in the United States. Eligibility to receive benefits and the amounts of benefits payable are determined by the total earnings and contributions credited to an individual throughout his or her working lifetime.

A survey conducted in 1982 revealed that less than one-half of 1 percent of all contributors to the Canada Pension Plan had applied for a statement showing the credits they had accumulated. It was evident to our administration that the public at large were not aware of the significance of their contributions and the relationship they bore to the pensions that could be payable.

The Canada Pension Plan Administration recognized a need to better inform the public and in 1983 conducted a pilot project to assess their reaction to an information package which included a statement of their credits paid to date, pension calculation estimates, and descriptions of the various pensions payable. From that survey, more than 91 percent of the recipients indicated that they intended to retain the documents for future reference. As well, more than 75 percent of those surveyed stated that the documents were very informative and helpful.

In view of this very positive response to the pilot project, the Canada Pension Plan Administration implemented a contributor information program in 1985. The primary purpose of this program was to encourage the public's involvement with the Canada Pension Plan. Its objectives were to provide advice and information to all contributors regarding the Canada Pension Plan, to promote an understanding and awareness of the significance of their contributions as they relate to potential benefits, to make contributors aware of the importance of ensuring that the earnings and contributions records were accurate and complete, and also to ensure that the benefits that they had accrued were applied for.

I should add also, Mr. Chairman, that the pension entitlement estimates that are shown on our contributor statements are calculated using actual figures only and reflect a pension value that would be payable as of the date that the statement is issued. The

Canada Pension Plan Administration has refrained from attempting to project earnings and pension estimates over a lifetime due to the many variables involved, and more importantly, did not want to mislead the individual into a false sense of security that may not materialize if changes occurred in the employment patterns for the remainder of his lifetime.

The Canada Pension Plan Contributor Information Program has now just completed its fifth year of operation in March of 1989. In total we have sent more than 17 million statements to contributors between the ages of 20 and 92. Most of the contributory population have now received these statements at least twice. Our program is designed to send a new statement once every 3 to 4 years. A contributor, however, still retains the right under our legislation to request a statement of his credits once in any 12-month period.

Of the 17 million statements that we have mailed to date, only slightly more than 700,000 were returned as undeliverable due to either an incomplete address or the death of the contributor. This program has been directly responsible for more than 200,000 inquiries regarding pension entitlement or requesting an investigation of missing or incomplete earnings and contributions information.

The total known costs of our program from 1981 to 1989 was in excess of $8 million. The last fiscal year, 1988/89, we had delivered more than 4 million statements to our contributory population. The total cost per statement was approximately 56 cents of which 31 cents was postage alone.

Senator MOYNIHAN. That famous stamp. The stamp costs more, costs the most.

Mr. WALSH. Yes.

Although the Canada Pension Plan Administration has not conducted a formal survey during the past 5 years, it is reasonable to conclude that the Contributor Information Program has been well received by the general public. It is generally agreed that the Contributor Information Program has achieved all of its stated objectives, and at the present time the Department of National Health and Welfare has no intentions of ceasing this program.

[The prepared statement of Mr. Walsh appears in the appendix.]

Senator MOYNIHAN. Thank you, Mr. Walsh, and I would like to say for the record here that you have been thoughtful enough to prepare a sample Canadian contributor statement, and it really is remarkably clear and readable and it tells you about your retirement pension, your disability pension, your disabled contributor's child's pension, death benefit, survivor's pension, orphan benefit.

If I could just say, when I did finally get my statement from Social Security, it was interesting to me that the thing I really focused on was survivor's benefits. Now I knew I had survivor's benefits for heaven's sake, but I knew and I did not know. It is probably one of the things least appreciated by contributors—you do not know you have survivor's benefits until you get killed. Wouldn't you say, Bob, that this is not really part of the awareness of the working-age American that, you know, the family is protected?

And I must say I admire this little statement that goes out. It says, "Canada Pension Plan Terms and Conditions," and it would leave you to feel that, you know, you are part of an insurance

system, and these are the terms and conditions of your contract. It says, "Important: This document should be kept with your valuable papers," and that gives you a nice sense that, yes, we know you are here. You have some rights here.

Have you two seen these?

Mr. MYERS. Yes.

Senator MOYNIHAN. Canadians do things well.

Mr. Myers, sir.

Mr. MYERS. Mr. Chairman, if I might say something?

Senator MOYNIHAN. Please.

Mr. MYERS. I quite agree with you. What Canada is doing is really excellent in this way, but I do want to comment on the point that they do not make projection of earnings. I think that for their system this is right, but for ours it would be wrong. The reason is the systems are quite different. The Canada Pension Plan, the contributory plan, is just part of the picture. They also have a flat benefit that——

Senator MOYNIHAN. That is right, yes.

Mr. MYERS [continuing]. They get. Whereas ours, the two are merged and you just cannot separate them. So with our system, in order to get a meaningful picture of the retirement benefits, you must have some sort of a projection.

Whereas, of course, the survivor and disability benefits, as in our statements, as also in the Canada Pension Plan statements, it says, "If you die today or if you are disabled today, this is what you will get." We can determine benefit amounts that way, but under OASDI you cannot say what retirement benefit a person has earned to date, whereas in the Canada Pension Plan you can clearly do that.

Senator MOYNIHAN. Yes, I think that is fair, but you would also agree that there is a nice sense of a fiduciary relationship that you get out of these things.

Mr. MYERS. Yes, it is an excellent statement.

Senator MOYNIHAN. Yes.

Well, we would like to thank you all—Mr. Walsh, did you want to say something?

Mr. WALSH. I would just like to add in closing, Mr. Chairman, that my department would be very willing to cooperate with the SSA during their project stage, or the project development stage, and share the pains that we went through in developing our program and offer them any assistance that they may like to have. So we would be most cooperative in that regard.

Senator MOYNIHAN. That is very generous and we thank you for that. We hope you will thank your Minister for making it possible for you to come down, and again, we are most privileged to have the three of you here.

Once again, I want to thank Mr. Ball, Mr. Myers. You views carry very great weight with this committee and they ought to.

Gentlemen.

Mr. MYERS. Thank you.

Mr. BALL. Thank you, Mr. Chairman.

Senator MOYNIHAN. Well, our next panel, and a very distinguished, if younger, group, or pair rather, of public officials, Mr. Royal Shipp, who is the Deputy Associate Director for Research Co-

ordination at the Congressional Research Service, and Mr. Joseph Delfico, well and favorably known to this group as the Director of Income Security of the Human Resources Division at the General Accounting Office.

I should make clear that, Mr. Shipp, you were executive director of the congressional panel on Social Security organization, which was headed by Elmer Staats, and one of the panel members was my old colleague and dear friend, Martha Derthick, and again, we will proceed as we have. We will put both of these statements in the record as if read, and you can summarize them exactly as you wish. Take your time. We are here to hear from you, and we want this record to be as full as it should be.

Mr. Shipp.

We just follow the sort of random——

Mr. SHIPP. Yes.

Senator MOYNIHAN [continuing]. Computer printout of who comes first, and you are first in this case.

STATEMENT OF P. ROYAL SHIPP, DEPUTY ASSOCIATE DIRECTOR FOR RESEARCH COORDINATION, CONGRESSIONAL RESEARCH SERVICE, WASHINGTON, DC

Mr. SHIPP. Thank you, Mr. Chairman, I am pleased to appear before your committee to discuss the conclusions and the recommendations of the congressional panel on Social Security organization, which I was the executive director.

This study panel was authorized by the Social Security Amendments of 1983. Public Law 98-21 specified establishment of a three-member panel to study how an independent agency might be implemented if the Congress decided to enact one, including the possibility of a three-member board. The panel took this direction rather literally and throughout its report specified that it was not dealing with the question of whether an independent agency was a good idea——

Senator MOYNIHAN. Yes.

Mr. SHIPP. But if the Congress enacted one, how it should be organized.

You have noted, Mr. Chairman, that Elmer Staats was the panel's chairman. Martha Derthick was one panel member, and Arthur Hess, with a long-time career working in the Social Security Administration, was the other. These panel members were selected jointly by the chairman of the Finance Committee and the Committee on Ways and Means.

The panel's report was issued 5 years ago. There is no way to know, of course, whether that panel, or a different panel, would have reached exactly the same conclusions if they were studying the question today.

The panel began its work in November of 1983 and issued its report in June of 1984. Copies of the report are available. It is a short report as these things go. An analytical staff prepared background information and planned public hearings, by did little research. The panel members themselves constituted——

Senator MOYNIHAN. Well, they were able to think about this subject on their own.

Mr. SHIPP. Yes, and that was the idea of setting up a panel of experts. And as I have indicated in my statement, the conclusions and the recommendations and even the language in the report reflect the thoughts and the writing of the panel members to a degree unusual in this kind of work.

The panel set about to gather information by holding public hearings, receiving testimony from 53 separate witnesses. The panel commissioned some consultant reports on various aspects of the independent agency question—issues it was particularly concerned about. An important report was completed by the National Academy of Public Administration, giving recommendations on the kinds of management authorities that a Social Security Administration should be granted. Another contractor was a health care consulting firms on the issues of health care policy and administration, and a third was with a very qualified attorney who had worked extensively on the extent and nature of independence that could be granted in setting up an agency. We wanted to give the panel members a range of options to consider.

At that time, as you know, Mr. Chairman, the Social Security Administration was perceived to suffer from major problems. The trust funds had gone through two major financial crises in the preceding decade. Major changes in program responsibilities had occurred, with the requirement to implement the Supplemental Security Income Program in 1974 and the removal of Medicare from the agency in 1977. There had been problems with SSA's automation plans. At the time this panel met and did its study, 9 commissioners had presided over the agency in the previous 12 years. Four of those nine had been in acting capacities only. And SSA had undergone a series of disruptive reorganizations—three or four in the previous half dozen years. An the survey data, some of which you mentioned earlier, on the decline in public confidence, was available to the panel and to the staff.

The panel's recommendations came in three areas. First, the panel concluded that an independent agency, if it were to be set up, should include only the OASDI and SSI programs. The panel considered carefully the question of Medicare, and decided for a number of reasons that Medicare should not be part of an independent Social Security agency.

There were three major reasons for this: (1) it would make more difficult the task of strong operational management of the Social Security program itself; (2) it would make more difficult a coherent approach to health care policy in the executive branch, and (3) it would leave the Department of Health and Human Services without sufficient responsibilities to merit departmental status.

On the other hand, the panel concluded that with the Health Care Financing Administration—Medicare and Medicaid—still in the Department, it would continue to constitute a coherent Cabinet unit. In fact, the name Department of Health and Human Services would describe the Department's functions even more accurately.

At that time SSA included other smaller programs. I guess everything is small compared to Social Security. These other programs—AFDC, Child Support Enforcement, Refugee Assistance, and Low Energy Assistance—were part of the Social Security Administration in 1981. These programs have subsequently been re-

moved from the Social Security Administration and set up in a new Department of Health and Human Services agency. The panel's report recommended that an independent agency not include these four programs, and that point is moot, of course, now.

Senator MOYNIHAN. I guess I should, of the many, many things I do not know, I did not know that AFDC had been in Social Security technically.

Mr. SHIPP. Yes.

Senator MOYNIHAN. They removed and it has not been seen since. I mean where it went, nobody knows.

Mr. SHIPP. Well, it was out and then it was in, and then it was out again.

Senator MOYNIHAN. Yes.

Mr. SHIPP. The panel recommended a single administrator to be the head of this agency with a nine-member advisory board. The nine-member board would have advisory functions only. The operational responsibility, the management responsibility, would be lodged in a single administrator.

The panel did consider its charge carefully to evaluate the merits of a three-member board and decided against it, I think largely on grounds that a clean and crisp organizational responsibility should be lodged in a single official. Also the fact that the—the panel recommended that this administrator have a 4-year term of office, to be consistent with the term of the President. In other words, a new President could appoint a Social Security Administration for a 4-year term.

The final set of panel recommendations involved the delegation of management authorities. You have discussed already, Mr. Chairman, some delegation of authorities for personnel matters, for facilities, and for computer acquisitions. The panel's recommendations were consistent with these suggestions and with ideas for management authority delegations that have been developed since 1984.

The panel would have established a transition process for moving from the current system to a new independent agency. The Commissioner of Social Security at the time would be named acting administrator of the new agency. This acting administrator would be charged with responsibility for consulting with the GAO, with the GSA, and with the OPM and agreeing on how these delegations might take place and what kinds of oversight responsibilities still should remain with the regulatory agencies.

With that, Mr. Chairman, let me conclude. If you have any questions, I will be glad to try to respond to them.

[The prepared statement of Mr. Shipp appears in the appendix.]

Senator MOYNIHAN. We will hear your colleague, Mr. Delfico.

Mr. SHIPP. Yes.

Senator MOYNIHAN. And we welcome you, sir——

Mr. DELFICO. Thank you.

Senator MOYNIHAN [continuing]. After that formidable study on the Social Security trust funds, which you did for this Committee and which still echoes and is still unresolved, but you asked the right questions and they remain to be answered.

Good morning again, sir.

STATEMENT OF JOSEPH F. DELFICO, DIRECTOR, INCOME SECURITY ISSUES, HUMAN RESOURCES DIVISION, GENERAL ACCOUNTING OFFICE

Mr. DELFICO. Good morning and thank you, Mr. Chairman.

I would first like to touch on a few key points regarding S. 216—the bill to create an independent SSA. Since the National Commission on Social Security Reform advocated independence about 8 years ago, many changes to the agency's operational environment have occurred which could affect the perceived need for independence.

The financial crisis surrounding the Title 2 trust funds, as you know, has subsided. The threat of wholesale automated data processing systems failures has also been reduced, and our work shows there has been major management improvements over the past years at SSA.

What we found is that SSA's longstanding management problems were caused by the lack of, in our view, strong, stable leadership, the lack of adequate management processes, and the lack of sharply focused and consistent priorities within the agency. Corrections to any of these problems, or at least to most of them, can occur whether SSA is independent or continues to be part of HHS. But, in our view success is more likely if a single administrator runs the agency rather than a board.

Under S. 216, as you know, the leadership of SSA is invested in a three-member board which is assisted by an executive director to direct operations. We believe the board structure as envisioned in the legislation would have an advantage of helping to improve the policy development activities within the agency.

However, our work has convinced us that the board structure has significant operational and management weaknesses. We testified in April of this year that we believe that the most effective form of leadership would be a single administrator with a fixed term of office. Our work has shown that boards are not as effective as single administrators, particularly for managing operating agencies like SSA.

Over the years, we compared the board structure with that of a single administrator for several Federal agencies, including the Nuclear Regulatory Commission, the Federal Communications Commission, and the Consumer Product Safety Commission. We concluded that these agencies would have been more effective if they were managed by a single administrator, and we have reports on each one of these agencies.

There is other evidence which suggests that boards are not as effective as single administrators. Studies such as those by the Hoover Commission, the Ash Counsel, and the Railroad Retirement Commission have recommended changes to improve board-run agencies or found little value in the board leadership of agencies and have advocated their abolition.

Given the problems that SSA has experienced in its operation and the frequent need for direct and swift, clear management action, we do not believe that it should have a leadership structure that could result in diffused and sometimes confusing direction over its operations. The best leadership structure, as I mentioned

earlier, for an independent SSA would be a strong single administrator as the head of the agency appointed for, we believe, an 8-year fixed term and assisted by an advisory board——

Senator MOYNIHAN. Eight years.

Mr. DELFICO. Yes, with an advisory board for policy matters.

With regard to the personal earnings and benefit statement and the legislation that you have introduced, we stated last year in our testimony before the Subcommittee that we believe there is merit in providing covered workers with better information about their Social Security earnings and benefits as would be required by your legislation.

One of the several advantages is that, in our view, it provides people with the opportunity to verify the accuracy of their earnings records and if necessary, to resolve any discrepancies they may have. The failure to post or to accurately record earnings information could affect both workers' eligibility for and the amount of Social Security benefits.

As we have reported in the past, SSA recorded $58.5 billion less in workers' earnings than the Internal Revenue Service recorded for the period 1978 through 1984. Because of this, 9.7 million individuals could have uncredited earnings and that beneficiaries lost, on the average nearly $17 a month. SSA is currently working though to resolve these discrepancies, and we are working with them to do that.

Since the inception of PEBS, SSA responded to nearly 4.6 million requests for earnings statements from covered workers. In turn, through April 1989, these statements generated about 54,000 cases in which earnings discrepancies were found by the requesters. SSA estimates that 3 percent of all requested earnings would result in follow-up work to clear up discrepancies. In the long run, PEBS may be SSA's most effective tool for assuring the accuracy of earnings records, and we are in much favor of that.

However, before legislatively mandating a personal earnings and benefits statement, the Subcommittee should consider the range of costs for doing so. Along these lines, SSA is currently conducting a pilot test to determine whether it is feasible and useful to periodically send similar statements to all covered workers. This test will also determine the costs and the resource impact, as well as the operational problems. This effort should be done in about a year from now at which time we will be able to and you will be able to determine the alternatives and costs for routinely providing earnings and benefits statements to all covered workers.

Mr. Chairman, that concludes my testimony. We would be happy to answer any questions if you have any at this time.

[The prepared statement of Mr. Delfico appears in the appendix.]

Senator MOYNIHAN. Yes.

Listen, the two of you, thank you very much, and I am going to ask you to do something which I know both of you like to do, which is to think. Go away and think about this subject for us a bit.

We have, I believe, something different from a problem in public administration here. I think we have a political problem, and you are, both of you, distinguished public servants and you have learned to make that distinction.

You, Mr. Delfico, say, for example, "given the frequent need for direct, swift and clear management action." I do not think there is a frequent need for direct, clear, and swift management action in Social Security. Why do I think that? Because it works so well in spite of the leadership it has had in the last 20 years. I mean, you know, despite everything government could do at the top, the checks go out. They are never a day late or a dollar short. Thirty-nine million people get these checks.

But on the other hand, many do not believe they are going to get them. That is the political problem. We have the big problem that you focused on, which is that we are getting a billion dollars a week in surplus and it comes from a payroll tax—the first penny you earn as a waitress, you pay taxes on it—and that money is being used to finance the current consumption of government.

I mean I do not want to get out of control here, but the Soviet Union has just introduced a graduated income tax and we have just abolished ours, you know. That has got me confused, and we found $28 billion sort of going off in one direction and nobody knew.

My thought about a governing board is simply that there be a minority voice there. You know, if the Democratic party, which is the party of prudence and care and concern, should become too prudent, you know, say maybe a Republican might want to say, "Loosen up a bit, friends and take care of the widows," or vice versa.

The voice that needs to be heard is the voice of large issues. "Now just wait a minute. Are we saving this money or are we not?" The administrative issues or the management issues are of a kind that can be routinized and, you know, you are not a captain on a bridge where you have to make a quick decision. You know, "What is that over there? Is that a missile coming at me, or are those swallows?" And it can make a difference whether you get it right.

Will you think about that? Because we know and understand and respect advice. But I think it is up to us to perhaps give you the contrary case, and I do not think we have done that well. But do you hear a little bit about what I am saying?

Mr. DELFICO. Mr. Chairman, I do, and we have struggled over this ourselves. Clearly, in the 4 years we have been dealing with this particular issue, the line between politics and operations, policy and operations wavers back and forth, but there is a clear line. We, as you see from our statement, and very concerned about the management and the administration of SSA.

Senator MOYNIHAN. Yes.

Mr. DELFICO. It is the most complex agency, in my view, in government to run. It runs like no other agency, and they have done a marvelous job with a single administrator. Our concern is to change horses in midstream, as far as the management is concerned, with a board. Boards are usually indecisive, slow, and ineffective in running agencies. This gives us some——

Senator MOYNIHAN. Well, in another capacity we have watched that with some considerable concern in the nuclear regulatory body. But we have issues of public confidence.

Mr. DELFICO. I understand.

Senator MOYNIHAN. And say there are three people up there and there are two parties. They watch each other and they do not have to be told what to do by someone in OMB and your money is going to be there. What worries me is that people do not believe it, and if, on your question—and I will not keep you any longer—but your question about should we mail out these statements on a regular basis. Ten years ago, sir, I would have listened to OMB with great attention on that and deference, which I still do. But do you know the mail you do get today from some groups about your Social Security condition? Have you ever seen those things?

Mr. DELFICO. Not unless I ask for it.

Senator MOYNIHAN. I mean about how they are going to take it away from you.

Mr. DELFICO. Oh, I see. Yes.

Senator MOYNIHAN. You know, "Attention: Post Master. Official Document. Your livelihood is about to be ripped apart," and people get scared. I am quite serious about this. I have 18.5 million people I represent, and I go around to a lot of town meetings.

Oh, you know the 67-year old business person gets this stuff and he or she has seen a lot of things and may not be concerned, but the 82-year old widow gets it and is terrified. You know, "Are they going to take my Social Security away from me?"

A new kind of problem has emerged in the 1980's. This is a new thing, and it affects the level of public acceptance and understanding. We have a problem of stability, of understanding and confidence.

And we thank you both very much. We asked for your advice and we are going to take it with great attention.

Mr. Shipp, I do not think this Committee has ever had a chance to thank you and Mr. Staats' Commission for its work. I would like to—the public never says its thanks very well, as you know very well.

Thank you both, gentlemen.

Mr. DELFICO. Thank you, Mr. Chairman.

Senator MOYNIHAN. And now we have a final and concluding panel. I am conscious of the time that our guests have had to wait here, and we are approaching the noon hour when we are supposed to conclude. So we are going to go right ahead. I am going to ask that if we could keep the statements to some reasonable length so we can conclude on time.

Our panel consists of Mr. Gene Lehrmann, who is Vice Chairman of the Board of Directors of the American Association of Retired Persons, the largest membership organization in the world, I guess—well, I suppose the Baptists would get mad if I said that—but certainly the largest public association of its kind in our country today; Mrs. Martha McSteen, who is President of the National Committee to Preserve Social Security and Medicare, and formerly an Acting Director of Social Security; and Mr. John Sturdivant, who is National President of the American Federation of Government Employees.

And we welcome you all.

Mr. Lehrmann, this randomized list has you first, and we welcome you, sir.

STATEMENT OF GENE LEHRMANN, VICE CHAIRMAN, BOARD OF DIRECTORS, AMERICAN ASSOCIATION OF RETIRED PERSONS, MADISON, WI

Mr. LEHRMANN. Thank you very much. Good morning, Mr. Chairman.

I am Gene Lehrmann, a member of the Board of Directors of the American Association of Retired Persons. The Association appreciates the opportunity to testify——

Senator MOYNIHAN. May I just say that the statement will be put in the record as if read, and you summarize or extemporize as you like.

Mr. LEHRMANN. Very good. Thank you.

The Association appreciates the opportunity to testify on improving confidence in Social Security. AARP believes that confidence in Social Security will be enhanced by establishing an independent agency to administer the program and by providing personal benefit statements to workers. We commend the Chairman for his leadership on these issues of importance to Social Security.

The AARP supports S. 216, introduced by the Chairman to create an independent agency to administer the Social Security and Supplementary Security Income programs. Adoption of this legislation would ensure that both programs are administered in a stable and professional manner.

Confidence in SSA has been eroded over the past several years, due in part to the agency's longstanding problems in management and service delivery. Strong, stable, and independent leadership at SSA could help correct some of these problems.

Throughout most of its history, SSA was hailed as a hallmark Federal agency, providing quality service to the public in a cost-effective way. However, since the late 1970s, SSA has endured successive and rapid turnover in its top leadership. As the General Accounting Office reported, the short tenure of many recent SSA commissioners has contributed to the agency's inability to establish clear management priorities or develop a consistent direction.

Likewise, its current status as part of the Department of Health and Human Services has made it more difficult for SSA to operate solely from a Social Security agenda.

Senator MOYNIHAN. Yes, yes.

Mr. LEHRMANN. Furthermore, the current status of SSA makes it vulnerable to the imposition of policies and practices which inhibit the agency from fulfilling its mission. The most conspicuous example of such policy making is the Office of Management and Budgeting ordered 5 years 17,000 persons staff reduction. That action was unwarranted since the programs administrative cost, financed out of the trust funds, already are extremely low. Decisions such as that one, made without consideration of what is best for Social Security, undermine the faith of current and future beneficiaries in the ability of the Social Security Administration to provide a competent, effective, and humane means of delivering services.

AARP believes that S. 1079, which requires that workers receive Social Security account statements, would bolster worker confidence by reassuring them of the program's ability to provide adequate financial benefits. Such statements also have additional ad-

vantages. They remind workers of the comprehensive benefits provided by Social Security. These statements are also valuable retirement planning tools. In addition, they contain important information regarding a worker's earning record. In order for a worker to receive the proper benefit amount, these statements must be accurate.

AARP supports the principals behind both S. 216 and S.1079. They represent important means of bolstering worker confidence in Social Security. We look forward to working with the Chairman and the Committee towards enactment of both these pieces of important legislation.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lehrmann appears in the appendix.]

Senator MOYNIHAN. We thank you.

Why is it that when the AARP comes before us, they always say everything they have to say in 4½ minutes? It is a skill which we have never developed on this side.

We will wait until we have heard from everyone, and now we hear from Mrs. McSteen.

STATEMENT OF MARTHA McSTEEN, PRESIDENT, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE, WASHINGTON, DC

Mrs. MCSTEEN. Mr. Chairman, I am Martha McSteen, President of the over 5 million-member National Committee to Preserve Social Security and Medicare.

We welcome the emphasis you are placing on improving public confidence in Social Security. Social Security is the foundation on which workers build to protect themselves against the loss of income due to retirement, disability, or death, yet confidence in the system has been shaken.

Seniors are concerned about a decline in service and in the future of the system. The young are concerned that Social Security will not be there for them when they retire despite the taxes that they now pay. All are concerned about "their" Social Security and that Social Security be fair, whether to workers or disabled widows, notch babies, or working spouses. No proposal would do so much to restore public confidence in the system as would the adoption of your legislation to make Social Security an independent agency.

The National Committee's legislative plan made your proposal a priority because it is our conviction that a return of Social Security to independent status would remove the agency a step from the political pressures that have lessened the effectiveness of the agency and undermined the public confidence in the integrity of the agency.

The hallmark of the Social Security Administration through the years has been service to the public. When the millions of Americans who worked hard and paid Social Security taxes came to file for benefits, they rightly expected to receive accurate information about their entitlement in a timely and courteous manner. Generally, Americans were well served. As time passed, however, the

leadership of the Social Security Administration became politically oriented.

Senator MOYNIHAN. Yes.

Mrs. MCSTEEN. In the past I have spoken in opposition to the concept of an independent agency because I had faith that the Social Security Administration could be effectively managed to fulfill its commitment to the present and future generations. I have changed my point of view because I believe that faith has been broken.

Mr. Chairman, you have already demonstrated leadership in restoring that faith, as you did most recently as a member of the National Economic Commission. Seniors have been able to count on you. Your introduction of the Social Security Trust Fund Saving Act and your legislation to require SSA to periodically send a personal earnings and benefit estimate statement to every worker over 25 are both bills that strengthen Social Security and would help to restore confidence in the system.

Current fears and misconceptions will be overcome only when responsibility for Social Security and Supplemental Security Income is placed in the hands of a bipartisan board committed to the programs and given full authority to select and employ an executive to manage the agency. Social Security should be managed solely in the interest of American workers and retirees and not to satisfy political agendas.

Mr. Chairman, the National Committee supports the creation of the Office of Beneficiary Ombudsman, as called for in your legislation. We also urge you to adopt a beneficiary bill of rights.

Our country will continue to face a number of important Social Security issues in the future. Now is the time to reassure all Americans that Social Security is sound, reliable, and still has the flexibility to adjust to current and future needs. Never has there been a greater need for stability in the system and confidence in management. Your proposal for an independent agency is truly essential to restore public confidence in Social Security.

Mr. Chairman, thank you for this opportunity to comment.

[The prepared statement of Mrs. McSteen appears in the appendix.]

Senator MOYNIHAN. Mrs. McSteen, I want you to know, I have had a plan for years—it has not come to anything—but if there was room for one more statue in Washington, it would be to a public official who changed his or her mind. [Laughter.]

There ought to be one. I mean you are a career civil servant, public servant, a very distinguished one, and now you are in an advocacy position. You have seen both sides of this issue and you have come around. It is really very impressive, and thank you for that.

And, of course, Mr. Sturdivant.

STATEMENT OF JOHN N. STURDIVANT, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO, WASHINGTON, DC

Mr. STURDIVANT. Thank you, Mr. Chairman.

I will just summarize my remarks. I have a prepared statement.

Senator MOYNIHAN. Yes, sir.

Mr. STURDIVANT. I am president of the American Federation of Government Employees, AFL–CIO. Our union represents more than 700,000 Federal employees throughout the government, including some 55,000 workers in the Social Security Administration.

Thank you for this opportunity to testify on the establishment of Social Security as an independent agency and the issuing of annual account statements for prospective Social Security beneficiaries.

AFGE supports the establishment of Social Security as an independent agency, whose function would be to administer the OASDI and SSI programs. The bill being considered here today, S. 216, accomplishes this goal and specifies that the new independent SSA would be directed by a board consisting of three members with broad authority in setting policy directions, which would also include personnel management policy.

We believe that an independent Social Security board has the potential to provide an important foundation for positive change at SSA. Its authority could serve as an important first step in depoliticizing the agency and assuring that those who run the agency have as their greatest concern the integrity of the Social Security system and the interests of the public that it serves.

However, as it stands, the existing bill has some shortcomings with respect to its provisions for employee rights and protections, such as those which exist in the Civil Service system. In our written testimony, submitted for the record, we detail the amendments we feel are needed before we fully endorse the bill. These amendments are aimed at protecting the employees of SSA and assuring that the merit principals upon which the Civil Service system rests are honored in the new agency.

AFGE also supports S. 212, the bill which directs SSA to provide annual statements of personal earnings and potential benefits for all workers covered by Social Security. We support this bill because we feel it would enhance public confidence in the Social Security system, give workers a welcome opportunity to reconcile their private records with those of the SSA, and finally, because it would encourage the SSA to pay more careful attention to the posting of earnings.

Our only concerns relate to the implementation of the new law. As a new service, the issuing of these statements will cost money and additional resources. One of AFGE's greatest difficulties with the SSA has to do with understaffing, a problem which has arisen from reduced staffing levels at the same time that the workload has increased due to new functions and an increased number of beneficiaries. To accommodate the costs associated with the provisions of the new service, we ask that the Congress be certain to provide the additional resources necessary to meet the increased demands which will come from this new law.

Again, I wish to express my appreciation to the Committee for moving forward so quickly in this Congress with both pieces of this legislation. We want to see the SSA established as an independent agency, and we believe that it can be accomplished in a manner which also provides clear employee protections. We look forward to working with the Committee in order to address our concerns with the existing bill.

Thank you for the opportunity to appear before you today to present AFGE's views on these important bills, and I would be happy to try to respond to any questions that you might have, Mr. Chairman.

[The prepared statement of Mr. Sturdivant appears in the appendix.]

Senator MOYNIHAN. Thank you, sir.

May I say that it is a very special thing to have you here. I am indeed getting in my anecdotage, and there is nothing to be done about that. But the first assignment I had as a young Assistant Secretary of Labor in President Kennedy's Administration was to be Secretary to the Committee on Employee Management Relations, which recommended in the course of his first year in office that at long last, after the postal employees had been organized for a century——

Mr. STURDIVANT. Yes.

Senator MOYNIHAN. [continuing]. That there be union recognition in the Federal government, and the AFGE was a little group of about 40,000 people in those days, and you now have 700,000, and you have every right. You do your work well. Any points you want to make in your testimony about what you would like to see in this bill will be listened to with great attention by this person, this member of the Committee, and you are representing your employees.

Mr. STURDIVANT. Thank you, Mr. Chairman.

One of the things that—in fact, I just came back from Chicago where——

Senator MOYNIHAN. You are representing your members, not employees.

Mr. STURDIVANT [continuing]. I had an opportunity to visit the Harold Washington Program Service Center in Chicago, and I just have to continue to point out the problems we are having with the understaffing in the Social Security Administration.

Senator MOYNIHAN. Let me ask Mrs. McSteen and Mr. Lehrmann.

Do you get reports of this as a problem, Mr. Lehrmann?

Mr. LEHRMANN. Yes, periodically we do get reports from people who are trying to get information and who have to wait in long lines to get information. So there is, we think, a lack of direct response to people and something that is very important as far as older people are concerned.

Senator MOYNIHAN. Mrs. McSteen?

Mrs. MCSTEEN. Yes, there is great concern and I receive not only letters from the members, but also anonymous calls from Social Security people who complain about what is going or not going on.

Senator MOYNIHAN. Yes.

You know, it is not as if they were not a lean operation. I mean it costs 1 penny on the dollar to look after 39 million beneficiaries and 125 million contributors. It was Bob Ball, I think, who said it very nicely that when automation came along, yes, you are going to save some manpower, and that is good. But should you then have said, "Well, since we do not have a problem of overhead here, can we use this to provide better services where we are a little short?" instead of cutting 17,000 people out of a group of 80,000. If

they have done that at the Pentagon lately, I have not heard of it. Have you?

Listen it is a matter of great importance to this Committee that the AARP and your organization, Mrs. McSteen, should be here and that we have uniformity. We have agreement on the three major organizations, and you do not always agree, nor should you. But you do agree here, and you have all earned the right to speak. I mean, the organizational effort, the attention to detail, the commitment that you all have brought to this are very good. I want to say this could not be a more positive note on which to end this hearing.

I want to ask our very capable staff if they have any particular questions they would like to——

I would like especially to thank Mr. Ed Lopez, who is the professional staff who has put the hearing together.

I thank our indefatigable recorder. We have given you a lot to work with today.

I think this promises a very important change in the confidence senior Americans, senior citizens, can have in a system that is absolutely essential to them, and they have paid into it and they have a right to receive benefits. But perhaps more importantly, the people who are now in the working years, their support of the system is absolutely essential, and they have to know that they are supporting something that will be there when they need it and also to know it is there when they might need it now in circumstances of personal difficulty.

I am very pleased. I am grateful to you all. I am grateful to our audience for its kind attention, and we will call the hearing closed.

[Whereupon, at 12:07 p.m., the hearing was concluded.]

APPENDIX

Alphabetical Listing and Material Submitted

Prepared Statement of Robert M. Ball

Mr. Chairmam and members of the committee: My name is Robert Ball. I was Commissioner of Social Security from 1962 to 1973. Prior to my appointment by President Kennedy I was a civil service employee of the Social Security Administration for some twenty years. Since leaving the government in 1973, I have continued to write and speak about Social Security and related programs. I was a member of the 1978–79 Advisory Council on Social Security and more recently was a member of the National Commission on Social Security Reform, the Greenspan Commission, whose recommendations were included in the 1983 Amendments.

I am testifying today as the Chair of the Independent Agency and Administration Committee of the Save Our Security (SOS) Coalition. SOS is a coalition of over 100 national, state, and local organizations with a combined membership of over 40 million people divided more or less equally between those currently contributing to the Social Security program and those currently receiving benefits. The coalition includes labor organizations, organizations of the elderly, organizations of the disabled and religious, and charitable and educational organizations. The coalition was founded some ten years ago by the late Wilbur J. Cohen, myself and many other individuals and organizations with a strong interest in preserving a sound Social Security system. Its present Chair is Arthur J. Flemming, former Secretary of Health, Education and Welfare. The views expressed here, of course, are not necessarily those of any other organization with which I am associated.

I would like first to tell why we in SOS strongly favor the passage of S. 216 and then why we also strongly favor passage of S. 1079.

THE IMPORTANCE OF REESTABLISHING AN INDEPENDENT SOCIAL SECURITY BOARD

SOS believes it would add significantly to public understanding of the trustee character of Social Security as a retirement and group insurance plan if the program were administered by a Board directly under the President. Social Security with over 60,000 employees and some 1300 district offices across the country is one of the very largest direct line operations of the Federal government. It does not make sense administratively to have this huge program, which intimately touches the lives of just about every American family, operated as a subordinate part of another government agency. The management of Social Security could be made more responsive to the needs of its beneficiaries and contributors if it were free from the frequent changes in the levels of service to the public which grow out of short-term decisions about employment ceilings and the varying management value systems which follow the frequent changes of Health and Human Services Secretaries and their immediate staffs. But most important, an independent Board would be visible evidence that contributory social insurance was a trust responsibility with vast commitments for the future and therefore different from other government programs.

Just about every American has a major stake in protecting the long-term commitments of the Social Security program from fluctuations in politics and policy. The administration of Social Security by a separate Board would strengthen public confidence in the security of the long-run commitments of the program and in the freedom of the administrative operations from short-run political influence. It would give emphasis to the fact that in this program the government is acting as trustee for those who have built up rights under the system. We are, therefore, very much in favor of the passage of S. 216.

It seems to us that setting up social Security as an independent agency under a bi-partisan Board is particularly important at this time. There has been an erosion of public confidence in the system due in part to financial problems in the late 1970's and early 1980's, and although the financing of the program is now on a sound basis, it is going to take some time to restore full public confidence. Making the program an independent agency under a Board form of organization with bi-partisan membership would be a helpful step in bringing about this much needed restoration of confidence.

The issues here are not by any means entirely administrative. The argument for an independent agency is largely administrative, but the argument for the Board form of organization on a bi-partisan basis with the continuity arising from term appointments is desirable primarily to underline the long-range character and trustee nature of the government's responsibility. In addition, the fact that the Board is bi-partisan acts as a brake on major swings in policy, particularly those of doubtful validity. It seems unlikely that under a Board form of organization we would have had the major shifts in the administration of the disability program that has characterized the last several years. A Board with a minority member would have been unlikely to remove hundreds of thousands of people from the disability rolis and later restore benefits to a large percentage of them through the appeals process. Nor would a Board have adopted a policy stance that caused many Governors under contract with Social Security to refuse to carry out Social Security's directions. And a Board would have been unlikely to pursue a course overturned by the courts in literally hundreds of cases. I would have expected, rather, that at least the minority member of the Board would have raised public questions about the policy before it was adopted, and it is even more likely that a majority of the Board would have thought a long time before adopting such a damaging set of policies. Under the organizational set-up in effect in the 1980's, policy seems to have gone directly into action by agreement between OMB and the Commissioner of Social Security without much review, certainly without a bi-partisan review.

Even on smaller matters such as administrative reorganizations, I believe a Board would have been more conservative and advisedly so. For awhile Social Security seemed to be getting a new Commissioner every year or two and with each new one a sweeping reorganization. Such constant change is damaging to performance.

Another example of an administrative decision where the checks and balances of a bi-partisan board might have been useful is in the planned reduction of Social Security's staff over the six-year period from 1984 to 1990. The plan has been for a 20 percent reduction from the 1984 full-time equivalent level of approximately 80,000 people down to 63,000.

There is little doubt but that some reduction in staff has been desirable due to the further automation of Social Security procedures. But a question can be legitimately raised about the plan adopted. It may be true, as some studies have suggested, that Social Security is delivering a level of service that the public perceives as not greatly inferior to what it delivered in 1984, but I believe a bipartisan Board would have carefully examined whether service could and should have been improved from the 1984 level as automation was further introduced, rather than translating the technological advances entirely into reduced staffing. I believe, too, a bipartisan Board would have looked at some of the less visible operations of Social Security—the selection of representative payees and an accounting of their trusteeship, the reinvestigation of disability recipients diaried for possible recovery, post-entitlement work generally and the administration of the Supplementary Security Insurance program, including the vigor of the outreach program.

The reduction of 17,000 full-time equivalent positions was a number negotiated with the Office of Management and Budget primarily with the object of reducing administrative costs. But in OASDI the more relevant question may be how to maintain good public service and how to improve service, not how to get by with fewer people. A bi-partisan Board might well have taken the view that, since administrative costs are only about I cent out of each Social Security dollar and are paid for out of dedicated deductions from workers' earnings and matching contributions from employers, savings from automation should go first to improved service—making sure that district offices are efficient and pleasant places for the public to carry on its business with Social Security, making sure there is adequate outreach service from the district offices to people who have difficulty getting to the office, making sure there is adequate public information activity, making sure handicapped people have sufficient help with their Social Security business, making sure the telephone service is adequate so that people do not have to wait on the phone for long periods of time in order to reach an office, and, in general, making sure the administrative values are those of the highest level of a public service agency.

What has actually happened is a negotiated arrangement between Social Security and OMB, with the emphasis on the reduction of staff and lower administrative cost and without the kind of emphasis on service levels that is important in this kind of program. It may even be that saving administrative money has cost more in benefit payments because of an inability to pay proper attention to the integrity of the payment rolls. I believe a bi-partisan Board very likely would have done better, or the minority member would have made an issue of it, just as I believe he or she would have protested the policy decisions that led to the disability disaster.

So there is in the bi-partisan Board organization, I believe, a check on unwise action as well as an institutional arrangement which will give people confidence in the handling of the finances of the program and confidence in the objectivity of administration. By and large, these are the advantages of a Board form of organization rather than day-today administrative efficiency.

The case for an independent agency can be made on administrative grounds alone. As pointed out by the Grace Commission, making a huge operation like Social Security a subordinate part of a Department creates duplicating staff services and repetitive levels of decision-making. Duplication is almost unavoidable. Social Security is big enough to have its own personnel services, budgeting, comptroller activities and everything it takes to make a big organization work. At the same time, a Secretary's staff feels the need to understand and control the activities of the subordinate unit so that the relationship between the agency and the outside world tends to be filtered through a second level of staff activity.

Now it is true that, in practice, during the initial period the Social Security Administration was part of a Department, it enjoyed a very substantial degree of independence. This was certainly true when I was there, but I have a strong impression that the independence has eroded. It is very likely that one reason there was such a contrast in the implementation of the Medicare program, which went extremely smoothly, and the implementation of the Supplemental Security Income program, which was pretty bumpy, was the degree of delegation which the Secretary and his staff were willing to make to the Social Security Administration. In the implementation of Medicare there was a very strong delegation to Social Security, and it was the only way that the program could have been put into effect successfully in the time available. The tasks were enormous, and if decisions had been held up at the Secretary's level, there would have been an impossible situation. In that setting, Social Security operated almost as if it had been an independent agency, making its own arrangements with the rest of the government and receiving great help and support from the rest of the government.

In the case of the implementation of the Supplemental Security Income program, policies had to be cleared in the Secretary's Office whether they were fundamental questions of direction or not, whether they were solely administrative issues, procurement issues, or whatever, and the result was inevitable delay, duplication, and lack of clarity in instructions out to the field where the work was being done.

So it is possible to administer the Social Security program well within a Department, providing there is more or less complete delegation to the organization. On the other hand, there is almost no contribution, if any, to the smooth functioning of Social Security from being a subordinate part of a Department, and in recent years there have been very strong disadvantages in the layers of clearances required.

Mr. Chairman, I believe S. 216 also greatly improves both the appearance and reality of the trustee function. Under present law, the managing trustee of the Social Security trust funds is the Secretary of the Treasury. He is very much in charge. The other trustees do not have much authority under the Act although they do have responsibility in connection with the trustees' annual report to Congress. Investment is just about completely in the hands of the Secretary of the Treasury, with the Board as a whole charged only with reviewing the general policies followed in managing the trust funds and recommending changes in such policies. Ordinarily this does not create difficulty because the statute itself carefully determines the coupon rate on new investments in securities issued solely to the trust funds, which in recent years have been the only investment instruments used. The areas in which the statute grants discretion to the Treasury are: (1) the extent to which the funds might buy and sell United States' securities on the open market; (2) the extent to which the funds might buy and sell securities guaranteed as to principal and interest by the United States; and (3) what the maturity dates should be on the obligations issued exclusively to the trust funds. The trustees for a long time have adopted a policy on maturity dates designed to come as close as possible to having the whole portfolio evenly distributed over a 15-year period. Nevertheless, the managing trustee has considerable statutory discretion on all three of these matters.

There is something of a conflict of interest between the Secretary of Treasury's role as the primary trustee of the trust funds and his role as the chief financial officer of the government. In his role as Secretary of the Treasury he is obligated to reduce the burden to the general treasury of interest payments to the trust funds. As the managing trustee of the trust funds lie is charged with securing the highest possible rate of return for those funds. Most of this conflict has been resolved by statutory rules that are intended to be fair both to the trust funds and to the Treasury. Yet there is a problem in having one person attempt to exercise both of these functions. In recent years an outstanding example of a direct conflict of interest has occurred in connection with the debt ceiling. When the Treasury bumps up against the debt ceiling it, of course, is unable to borrow for any purpose, including the payment of interest on the outstanding debt of the United States or the payment of Social Security benefits. The managing trustee of the Social Security trust funds more than once has resolved the issue in favor of the Treasury rather than the trust funds. Specifically, he has cashed in Social Security debt to give room to the Treasury to borrow. In place of interest-bearing securities in the trust funds, the Treasury made a notation of what was owed to the trust funds, with the intention of later making good, but it took an act of Congress to make up for the loss of interest and to restore the integrity of the funds. In the meantime, the trust funds had been put at some risk of interest loss, and there was, at a minimum, a public relations problem of loss of faith in the integrity of the Social Security funds. There was no lasting financial damage from this activity on the part of the Secretary of the Treasury, but it demonstrated clearly the possibility of a conflict of interest between his or her role as chief financial officer for the whole government and as a managing trustee of the trust funds.

The Secretary of the Treasury is needed as the day-to-day administrator of the Social Security funds. Only he is equipped to carry out the routine functions of fund management, but I believe that the provisions of your bill, Mr. Chairman, are a big improvement in shifting policy decisions to a new Board of Trustees. S. 216 subjects the Secretary of the Treasury to policy direction by a Board that has the interests of the Social Security trust funds single-mindedly at the center of its responsibility. This is a good move. Policy should be set by a Board of Trustees that does not have the kind of conflict of interest that a Secretary of the Treasury has inherently.

Some people who oppose setting up Social Security as an independent agency have argued that Social Security will not be as well represented in the councils of government as it is today because there will be no one at the Cabinet table to explain and defend the interests of the Social Security program. Although there is some merit in this contention, I do not find it persuasive. Surely any President would invite the Chairman of the Social Security Board to attend Cabinet meetings when the discussion involved Social Security. Nevertheless, to emphasize this point you may find it desirable to have the Committee report on this bill make clear that it is the intention of the Congress that the Chairman of the Social Security Board be directly involved in White House and Cabinet discussions of all matters that affect the present and future of the Social Security program.

There is no single right way to organize the functions of the federal government. Some of the possibilities are to group things together by subject matter similarity. This is the principle that brought together the two medical care payment programs of Medicaid and Medicare. Another possibility, however, is to group by type of administration, that is whether a program is administered primarily at the Federal level or primarily at the state level, with the Federal role being one of financing and standard setting. Still another possibility is putting together those things that have a similar program approach, such as grouping together all social insurance programs where the right to benefits grows out of past work and contributions, as compared to welfare programs where the object is to bring people up to a minimum standard of living based on an examination of their income and resources.

All of these approaches and others have been used in the past. The principle of direct Federal operation and the similarity of approach in social insurance led originally to Medicare being administered by the Social Security Administration, and there is a case to be made for the return of Medicare to a newly established Social Security Board. In favor of it are not only the organizational considerations I mentioned, but the fact that Social Security has district offices all over the country that can help people with information about Medicare and with the filing of claims, a resource not now available to the Medicare beneficiary. But the practicalities are against such a move at this time. After Social Security is removed from the Department of Health and Human Services what remains in the Department are largely health related programs, and if the Medicare program were also to be removed, the rationale for the Department is considerably weakened. And undoubtedly the re-

moval of Medicare would be strongly resisted by most people primarily interested in health programs. Thus we support the decision of the Chairman to establish an independent Social Security Board with responsibility solely for Old-Age, Survivors and Disability Insurance plus the closely related Supplemental Security Income program (SSI).

The organizational principle that justifies including SSI in this new entity is the avoidance of obvious and important duplication in the operation of direct benefit programs of the federal government. It would be ludicrous to establish a nationwide network of offices to administer SSI separately from Social Security when most beneficiaries of SSI are also Social Security beneficiaries. The two programs can be handled by the same administering agency at greatly reduced cost and greatly increased convenience for beneficiaries if they are kept together. So this should be done, even though one has to recognize that administering these two programs in the same agency has created some public confusion, and I must say also, at least in the beginning, some confusion on the part of the staff in the Social Security Administration. The SSI program is paid for entirely out of general revenues and is a direct welfare program. Everybody needs to understand that. The reason for having the two together are for the convenience of the public and for administrative savings to the government. They are philosophically and financially very distinct programs.

At the same time there is no reason for Social Security to be involved once more in the AFDC program. AFDC is a state-administered program and there is no significant beneficiary overlap with Social Security or SSI.

The bill leaves AFDC in the Department as I believe it should. When I was Commissioner of Social Security I was at first responsible for the AFDC program and the Old-Age Assistance program, the predecessor program to SSI, and several smaller programs, as well as Old-Age, Survivors and Disability Insurance, but except for broad research and legislative issues there were almost no situations in which there was any need to consider policy in OASDI at the same time one considered policy in the other programs. They were just completely separate operations and almost entirely separate policy entities. I had to turn my attention from one program to the other. You could not look at them together, and they got nothing out of being grouped together. The time spent in staff meetings by the heads of one agency listening to the problems of others could have been spent better in other ways.

I would, however, give the research arm of the new Social Security Board a mandate to pursue research in the whole area of economic security. It is not desirable, in my view, to restrict the research mandate as narrowly as the bill does. In social insurance, over the years, one of the most important research questions in the provision of economic security has been the relationship of social insurance to welfare, on the one hand, and private activities on the other hand. I would use language similar to that in the present Social Security Act in describing the research function of the new agency. If there is some degree of overlap with other agencies in the research area, it can be worked out informally without restricting the mandate by statute. In research there is always more to do than there is money to do it.

I believe the relationship of the new Social Security Board to the Executive Office of the President, particularly the Office of Management and Budget should be similar to any Cabinet department. I do not argue that the independence of a Social Security Board should remove it from the ordinary oversight of the President and his control agencies. Legislative proposals, for example, should be made by the President. However, in certain respects Social Security is large enough to conduct its own service activities and to do so more efficiently. For example, I would certainly grant the new Social Security Board very strong delegations in the personnel area to determine its own recruitment policies and classification work, and I note that the bill provides for this on a demonstration basis. I believe, on the whole, Social Security could do a better job in space management and space procurement than working through the General Services Administration. It should certainly have its own General Counsel, as the bill provides, but such Counsel should have the same relation to the Justice Department as any other Department of government would have when it came to dealing with the courts.

The object here is not to set up an entity with the same degree of independence, say, as the Federal Reserve Board which operates very largely outside the President's control in almost all respects. The object here is to secure a combination of administrative efficiency and to demonstrate an objectivity of administration and a trusteeship of established rights that is called for by long-range commitments. These goals by no means require the elimination of the oversight function of OMB and the other control agencies of the President.

There is really no logical basis for the present grouping of programs in the Department of Health and Human Services. The relationship of Social Security to other agencies within HHS is not very close. In fact, Social Security's relationship with other government departments is frequently much closer. For example, Social Security must closely coordinate its coverage decisions and its work with the Internal Revenue Service which has responsibility for collecting Social Security taxes. I can think of very little of any importance that Social Security has in common with the other agencies grouped within the Department of Health and Human Services.

Mr. Chairman, there is just one point in the bill, in addition to the point on research, that gives me pause. Those who advocate an independent agency under the direction of a single individual rest their case to a considerable extent on the possibility of overlapping functions between the Board and an administrator. They argue that distinctions between policy and administration are not clear enough to keep the Chairman of the Board and the administrator out of each other's hair. They argue that getting agreement within a Board is inherently more difficult than the decision of one person, and that if you have both a Board and an administrator you compound the difficulty of responding quickly to administrative problems or in carrying out day-to-day operations. They make a good point. If all that was at issue was the efficiency of day-to-day operations, it is probably true that a single head would be a slightly better form of organization. But as I have tried to point out, there is much more at stake here than day-to-day operations. Still it is desirable to set up the Board organization so as to minimize any potential for conflict between the Board Chairman and executive director, the day-to-day operator.

The relationship that I envision is not too different from that of the Chairman of a board of a corporation or a non-profit organization and the chief executive officer. I would give the Board responsibility for selecting the tap administrator, as the bill does, but I would also give the Board the power to define the duties of the job and remove the top administrator in the unusual situation where they couldn't get along. I think there is the potential for a problem if the executive director with responsibility for operations has a set term and duties defined in statute that are separate from those of the Board. I think it ought to be made clear that the Board in all respects is the top authority that it is the Board that is responsible for the whole program in all its aspects and that they hire a chief executive officer to carry out their will. I would hope the legislation would put all responsibility in the Board and let them get the help they need to carry out the work.

This would not by any means result in frequent turn-over in the administrator any more than is the case in a corporation where the Board of Directors hires and fires the chief executive officer. A Board will not go to the trouble of selecting a top officer of the caliber needed for this job and then force him or her out without good reason. That just makes their life more difficult. I believe a Board will be very responsible in the selection of a person whose primary duties are administrative and will stick with him or her as long as that chief executive officer is doing a good job. But don't make it too difficult for them to replace that officer in the event that things don't go well.

Mr. Chairman, we in SOS fully support S. 216 and believe that its passage would make a major contribution over the long run to the smooth functioning of our Social Security system and to the restoration of complete confidence in the integrity of the program.

THE IMPORTANCE OF PROVIDING A STATEMENT OF ACCOUNT TO ALL PARTICIPANTS IN THE SOCIAL SECURITY SYSTEM

We in SOS also believe it would add significantly to public understanding of Social Security and to confidence in the program if each contributor regularly received a statement of his or her earnings and an estimate of the benefits payable. As you know, progress has been made toward this goal as computer capacity at Social Security has expanded, and such statements are now furnished on request. However, I do not believe this is enough. The government owes it to contributing workers to keep them up to date on the protection they have earned, in part, so that people can plan well ahead of time to provide supplementary retirement protection to the extent they feel they need it and to provide additional protection for their survivors and dependents in the event of death or disability. Equally important, I believe such statements would reassure people about the dependability of Social Security and also help them realize what important protection they are getting for the contributions they and their employers are making.

It is shocking that nearly 50 percent of the people in the country, according to the latest polls, do not have confidence that they will receive Social Security benefits as promised. I believe that the passage of S. 1079 would help immeasurably to improve

contributor confidence in the program. As it is now, people contribute to Social Security year after year after year and never hear anything back. They must wonder what happens to their money!

We believe also that there is a tendency to very substantially undervalue the amount of protection Social Security provides; estimates of protection earned by the individual worker is the best way to change this misperception. Probably most people realize that once Social Security benefits are awarded they are kept up to date with increases in the cost of living, but probably not many realize that prior to the time benefits are awarded social Security protection is kept up to date automatically with increases in the level of living. I am doubtful that the majority of contributors have absorbed the fact that benefits automatically rise with wages—not just with prices—and that workers retiring 25 and 50 years from now will be awarded benefits equal to the same proportion of wages current at that time as workers retiring today receive as a proportion of today's wages. Dollar benefits will, of course, be much higher, but benefits will also be higher in real terms to the extent wage increases outpace price increases. It is not possible to get this story across without relating it to the individual's own situation; he or she needs to see concretely how much protection they are earning.

We have a good old-age, survivors and disability insurance program today and it is very popular, but understanding of the program is only about an inch deep and that makes it vulnerable to demagogic attacks.

I hope very much that S. 1079 passes quickly. I am only sorry it will take so long after passage to get the operation into full gear, but I assume the year 2000 is the first year the Social Security Administration thinks it can do the full job. I can understand why they want to be cautious, but maybe later this timetable can be speeded up.

I have carefully considered one objection that is sometimes made to furnishing estimates of retirement benefits to people who are still many years from retirement. The objection is that the estimate is bound to be off because earnings levels, which determine benefit amounts, will differ from the assumptions used in making the estimates, and people will be upset if their actual benefits turn out to be less than the estimate. There is some merit to this objection, but I believe the problem can be largely avoided by giving great emphasis in the statements to the fact that what is being furnished is only an estimate and that the actual benefit will differ from the estimate. I believe it would also be desirable to offer to make an estimate based on the worker's own assumptions as is done today. I believe sufficient safeguards can be included in the statement to keep the perceived problem to a minimum. It seems to me unless an estimate of future retirement benefits is furnished, the statement loses a great deal of its effectiveness.

Finally, one might raise the question why a bill is necessary. Why shouldn't Social Security just take the steps required by the bill on its own initiative? There is one very good reason: "money." Social Security staff will have been reduced by about 17,000 man years by the time the next budget cycle is completed. The Social Security Administration is scrambling to get the absolutely essential tasks done. It is important to have in law a definition of this new task in order to increase the likelihood that adequate resources will be provided to carry out the job. Even if an Administration is very sympathetic to the administrative needs of Social Security, which has not been the case in the recent past, it is very helpful in arguing with OMB about needed resources to have a statutory base for a workload. So it is of great importance to get these earning statements out, and it is of great importance to require it by statute.

Mr. Chairman, let me congratulate you on both of these bills. We believe their passage would make enormous contributions to the continued success of our Social Security system.

PREPARED STATEMENT OF JOSEPH F. DELFICO

Mr. Chairman and Members of the Subcommittee:

I am pleased to present our views on S. 216, a bill to make the Social Security Administration (SSA) an independent agency and S. 1079, a bill to require SSA to provide personal earnings and benefit statements to workers covered by Social Security.

S.216 would, among other things, create an independent Social Security Administration headed by a 3-member bipartisan board, establish a Beneficiary Ombudsman within SSA, and authorize SSA certain exemptions from the budget, personnel, and

administrative requirements of the Office of Management and Budget, Office of Personnel Management, and General Services Administration.

Few goals are more important than those embodied in this legislation—to increase public confidence in Social Security—and we clearly support this goal. As we have stated previously in testimony before the douse Ways and Means Social Security Subcommittee, independence has merit to the extent it promotes the stability and quality of leadership at SSA. It should be noted, however, that if SSA becomes independent, it will lose cabinet-level sponsorship; this could affect its ability to effectively argue against budgetary cuts and assure its programs are effectively integrated with related programs. In addition, regardless whether SSA is an independent agency or not, it would still be subject to budgetary and policy reviews by both OMB and the President.

Since the National Commission on Social Security Reform advocated an independent SSA in 1981, many changes to the agency's operational environment have occurred which could affect the perceived need for independence. The financial crisis surrounding the title II trust funds has subsided; the threat of wholesale automated data processing (ADP) systems failures has been reduced; and our extensive work to identify SSA's management weaknesses, reported on in March 1987, has, we feel, provided a blueprint for management improvement. In response to our work and their own initiatives, SSA's current leadership embarked on an extensive set of management and public service improvements that are already paying dividends.

Our work showed that most of SSA's longstanding problems were caused by the lack of strong, stable leadership; adequate management processes; and sharply focused and consistent priorities. Corrections of most of these problems, in our view, can occur whether SSA is independent or continues to be part of HHS.

STRONG AND STABLE LEADERSHIP FOR SSA

Under S. 216, the leadership of SSA is invested in a three-member board which would be assisted by an executive director to direct operations. The board structure as envisioned in this legislation would have the advantage of helping to improve policy development activities within SSA. However, our work has convinced us that the board structure has significant operational and management weaknesses.

It is our conviction that strong, stable and focused leadership is essential for sustained action in solving SSA's management and operational problems, particularly as the agency starts addressing the technological, social, and demographic challenges of the 21st century. Many of SSA's problems have been exacerbated by the fact that since 1973, SSA has had 10 commissioners or acting commissioners and has experienced at least five major reorganizations causing many redirections in operating policy, ADP modernization, and associated staff morale problems.

We testified in April of this year that we believe the most effective form of leadership would be a single administrator with a fixed term of office. Our work has shown that boards are not as effective as single administrators for managing an agency like SSA. Over the years, we compared the board structure with that of a single administrator for several Federal agencies, including the Nuclear Regulatory Commission, the Federal Communications Commission, and the Consumer Product Safety Commission. We concluded that those agencies would have been more effectively managed by a single administrator. Some of the basic assumptions about a board structure—stability, insulation from political and economic pressures, and diversity of viewpoints—have not been borne out in practice. Furthermore, we found that the performance of these organizations suffered because of (1) untimely decisions, (2) a tendency by board members to micromanage the daily operations of the agency, and (3) diffused accountability. We also found that administrative matters distracted board members from policy making and other substantive decision making—the primary purpose of and principal justifications for the board structure of leadership.

There is other evidence which suggests that boards are not as effective as single administrators. Studies, such as those by the Hoover Commission, the Ash Council, and the Railroad Retirement Commission, have recommended changes to improve board run agencies or found little value in the board leadership of agencies and have advocated their abolition. Additional details on these studies are in appendix I to this statement.

Given the problems SSA has experienced in its operations and the frequent need for direct, swift, and clear management action, we do not believe that it should have a leadership structure that could result in diffused and sometimes confusing direction over its operations. The best leadership structure for an independent SSA would be a strong single Administrator as head of the agency, appointed for an 8-year, fixed term and assisted by an advisory board for policy matters.

Although we believe that authority for managing the operations of the agency should be vested in a single administrator, a board could be established to advise the administrator on the many economic and social policy issues affecting the financial solvency of the Social Security programs. This would also give the Administration and Congress an opportunity to receive bipartisan views on such issues and help insulate the programs from major shifts in policy direction. The major goals of S. 216 could be achieved by adopting this organizational structure while still providing for a strong single administrator.

RESPONSIBILITIES OF KEY OFFICIALS SHOULD BE CLARIFIED

If the Congress decides to implement a board, the provisions of S. 216 that delineate the responsibilities of the board, and the executive director should be clarified to clearly establish accountability for directing SSA's operations. Title I of the bill prescribes that the board govern, by regulation, programs under titles II and XVI of the Social Security Act and establish and oversee efficient and effective operations in SSA. Title I also prescribes that the executive director will be SSA's chief operating officer, responsible for administering the programs. The legislation should clarify that the Executive Director should be responsible for directing the operations of the agency.

In addition, the bill appears to provide authority for the board to establish SSA's organizational structure, an authority that might better be given to the executive director, who will have to direct operations using that structure. Also, the bill gives the board authority for developing long-range plans for the agency. However, we believe the executive director should do the agency's operational planning.

OTHER CONCERNS

We oppose the provisions requiring the Comptroller General to carry out the inherently contradictory functions of both consulting in the implementation of demonstration projects and reporting on their effectiveness. Although evaluating the effectiveness of executive agency programs is a primary function of GAO, helping to implement those programs would appear to undermine our ability to independently evaluate them.

Section 101 establishing the beneficiary ombudsman does not state to whom this official reports. The role of the ombudsman in representing beneficiaries could be rendered ineffective unless this person reports at a high level within the organization, such as to the board or to a single administrator.

We have some concerns about section 103 of S. 216 relating to personnel, procurement, and budgetary matters and these are discussed in appendix II.

PERSONAL EARNINGS AND BENEFIT STATEMENT

As we stated in our testimony before this subcommittee on July 14, 1988, we believe there is merit in providing covered workers with better information about their Social Security earnings and benefits, as would be required by S. 1079. However, before legislatively mandating a personal earnings and benefits statement, we believe the subcommittee should consider the feasibility and costs for doing so.

As you know, SSA began providing such information in August 1988 to those who request it through a "Personal Earnings and Benefit Statement" (PEBS). These statements provide workers with a summary of earnings from 1937 through 1950; an annual breakout of earnings from 1951 to the present with the FICA tax paid each year; benefit estimates for retirement before age 65, at full retirement age, and at age 70; estimates for survivors and disability benefits; and insured status information for each type of benefit.

Currently, SSA is conducting a pilot test to determine whether it is feasible and useful periodically to send similar statements to all covered workers. This test will also determine the costs and resource impacts, as well as operational problems, associated with sending unsolicited PEBS. SSA plans to complete this effort by mid-1990, at which time it will be able to present to the Congress and the administration alternatives and costs for routinely providing earnings and benefit statements to all covered workers.

PEBS serves several purposes. First, it provides people with the opportunity to verify the accuracy of their earnings records and, if necessary, to resolve discrepancies. The failure to post or to accurately record earnings information could affect both workers' eligibility for, and the amount of, Social Security benefits. As we stated before this subcommittee last year, SSA recorded $58.5 billion less in workers earnings than the Internal Revenue Service recorded for the period 1978–1984. We estimated that 9.7 million individuals would have uncredited earnings and that

beneficiaries lost, on average, nearly $17 a month. SSA is currently working to resolve these discrepancies.

Since the inception of PEBS, SSA responded to nearly 4.6 million requests for earnings statements from covered workers. In turn, through April 1989, these statements generated about 54,000 cases in which earning discrepancies were found by the requestors. SSA estimates that 3 percent of all requested earnings statements will result in follow-up work to clear up discrepancies. In the longrun, PEBS may be SSA's most effective tool for assuring the accuracy of workers' earnings records.

PEBS also facilitates planning for economic security during retirement, enables workers and their families to make more informed retirement decisions. According to a study done for the American Association of Retired Persons (AARP), 7 out of 10 non-retired Americans believe such planning is important. Obviously, Social Security is a critical element in retirement planning. Early information on prospective benefits payable under Social Security would enable covered workers to plan for supplemental sources of income to complement what they will receive under Social Security.

Finally, PEBS could help educate the public about Social Security and build public confidence. Some of the current public dissatisfaction with Social Security is due to a lack of information on the various benefits. Better information and understanding of all the benefits provided by Social Security should result in improved public confidence. In this regard, the Home Testing Institute conducted studies for SSA in December 1987 and November 1988 on people's "confidence in" and "knowledge of" Social Security. Results showed a measurable increase in both categories between 1987 and 1988. SSA attributes this increase, in part, to PEBS, which was launched in August 1988.

As we stated previously before this Subcommittee, any legislation that would require SSA to send all workers a statement of earnings and benefit estimates should be drafted with an understanding of the administrative actions that would be required and the cost and resource impacts. Our work at SSA has shown that if legislation is enacted without considering these factors, SSA will have to resort to error prone, inefficient, and labor intensive manual processes. In reference to S. 1079, SSA indicates they will not be able to automate adequately some provisions by their effective dates and some of the mandated requirements cannot be implemented without large increases in work years. Consequently, before legislatively mandating a personal earnings and benefit statement, we believe the subcommittee should consider the results of SSA's ongoing research on alternatives for providing such information.

Finally, Section 1(c) authorizes the disclosure of address information by IRS to SSA. However, this may not go far enough in requiring IRS to provide SSA current address information from its various taxpayer files. IRS considers this information tax data and has often been reluctant to disclose this information for other than tax purposes.

Mr. Chairman, that concludes my testimony. We would be happy to answer any questions and work with the subcommittee in revising the bills to reflect our concerns.

Enclosure.

Appendix I.—Summary of Major Studies on Board Forms of Leadership

A number of studies done over the last 50 years have been critical of the board form of organization, primarily for regulatory commissions. The studies reiterated the weaknesses of collegial regulatory bodies and recommended actions to correct the identified problems and vest responsibility for management in a single administrator.

1937—BROWNLOW COMMITTEE REPORT

In 1937, the Committee on Administrative Management (the Brownlow Committee) published its report which stressed the lack of coordination among independent regulatory commissions and between the independent agencies and other government branches. The report highlighted the need for reorganization to improve coordination. The proposed solution was to abolish the independent regulatory commissions and integrate them into the executive branch where the commissions would become agencies within the executive departments. Once relocated, the commission functions would be divided between an administrative section directed by a single administrator and a judicial section that would remain independent in the making of regulatory decisions.

The main thrust of the Brownlow Committee Report was that policy and administration could be coordinated in the several regulatory fields only if the agencies were responsible to a Cabinet head and ultimately to the President. The Executive Reorganization bill of 1938, which contained many of the recommendations of the Brownlow Committee, was defeated in the Congress, partly out of concern that it would give too much power to the President.

1949—HOOVER COMMISSION REPORT

Unlike the Brownlow Committee, the first Hoover Commission concluded that the regulatory commissions had a rightful place in the political system, but to expectations. The Commission's recommendations found that they had generally failed to perform tended to be concerned with the organizational status and administrative structure of commissions. The Commission's report argued that the regulatory commissions would be more effective and efficient if the administrative responsibilities were vested in the commission chairperson. Echoing the Brownlow Committee, the Hoover Commission also noted the lack of coordination between the commissions and the agencies in the executive branch with similar regulatory responsibilities. To overcome this problem, it recommended that the position of administrative management director in the Bureau of the Budget (now OMB) be established to "suggest ways and means to improve and thereby reduce the cost of disposing of business before administrative agencies."

1960—REDFORD REPORT AND LANDIS REPORT

In 1960, two reports were published addressing in a more limited way the special problems related to operations and coordination posed by independent regulatory commissions. These reports suggested coordinating mechanisms to ensure a greater degree of accountability to the executive branch. The first of these, the Redford Report, prepared for the President's Advisory Committee on Government Organization, suggested statutory changes to allow policy direction from the President. The second report, the Landis Report, proposed that the administrative powers of the commission chairperson be enhanced and that staff positions be made more attractive by delegating authority. The report further suggested that the formulation of regulatory policy come under presidential guidance to ensure uniformity. Such guidance would be provided by naming special White House assistants to oversee and coordinate regulatory policy.

1971—ASH COUNCIL REPORT

The 1971 report of the President's Advisory Council on Executive Organization (the Ash Council) found the board form of organization for the regulatory commissions to be essentially ineffective and unable to respond well and in a timely fashion to economic, technological and social changes, and public needs.

These weaknesses were attributed by the Council primarily to independence from presidential authority, collegial administration, and the judicial cast of agency activities.

The Council's report recommended a major restructuring of the independent regulatory commission system "to assure coordination of regulatory matters with national policy goals, to improve the management efficiency of regulatory functions, to improve accountability to the Congress and the Executive Branch, and to increase the probability of superior leadership for regulatory activities." This was to be accomplished by eliminating, in most cases, the plural-member commissions and replacing them with organizations headed by single administrators responsible to the President.

The Ash Council Report was the subject of extensive discussion for several years after its release. Although the report has had its supporters, most commentators have been unconvinced, believing that the Council failed to make a logical case because it lacked factual or analytical evidence for most of its conclusions. The changes and reforms directly attributable to the Ash Council were negligible.

1972—REPORT BY THE COMMISSION ON RAILROAD RETIREMENT

In 1972, The Commission on Railroad Retirement concluded that the Railroad Retirement Board should no longer operate as a separate independent agency and that it should be headed by a single administrator rather than a board. In arriving at their conclusion on independence, the Commission stated that independent agencies lack the strength of a presidentially-appointed cabinet officer which prevents them from achieving maximum administrative effectiveness and that an independent

agency serving a single clientele has a more difficult task in representing the best interests of the general public.

The Commission's report was critical of the beard form of organization and stated that an agency which has responsibilities of an administrative nature should preferably be headed by a single administrator. The Commission observed that boards suffer real handicaps in the achievement of effective administrative or managerial leadership.

In developing its conclusion, the Commission reiterated the findings of the 1971 report by the President's Advisory Council on Executive Organization which extolled the merit of vesting responsibilities in a single administrator as opposed to a board.

1984—REPORT BY THE NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

The National Academy of Public Administration (NAPA) concluded that single administrators are far more effective and accountable than boards. Their report stated that even if a beard's role is carefully defined and its membership carefully selected, it is almost impossible to keep such a board from interjecting itself into the management of the organization. In discussing the disadvantages of boards, the NAPA report stated

". . . the likelihood is that they would end up confusing and debilitating the authority of the agency head, creating conflict for the staff, and becoming another layer of management which adds little and detracts much. Furthermore, the composition of such beards becomes an issue in itself, and all too often breeds preoccupation with diversionary issues of balance, representativeness, or political fairness, rather than the ability of such beards to contribute to the success of the program."

Appendix II.—GAO's Specific Concerns About Section 103 Personnel; Budgetary Matters; Facilities and Procurement

The central management agencies of the executive branch have an appropriate role in broad policy development and oversight of agency operations, but these roles should be carried out as unobtrusively as possible. Thus, we support removal of detailed controls, which is the intent of this legislation, but not if achieved in a way that erodes the ability of the central management agencies to apply policy and regulations consistently throughout the Federal government.

CONTRACT AUTHORITY FOR COMPUTER PURCHASES AND FACILITIES CONSTRUCTION

We support the provision that allows contract authority for computer purchases and facilities construction to (1) cover the total cost of such acquisitions and (2) be available until expended. But this authority should be provided only after SSA's currently inadequate financial controls have been substantially strengthened. While such funding may increase the likelihood that projects will be completed without interruptions once they have been approved, there is no assurance that the government will get what it pays for without reliable financial information and reporting on costs and performance.

COMPREHENSIVE WORKFORCE PLAN

We agree with the requirement that SSA requests for staffing and personnel be based upon a comprehensive workforce plan. Our ongoing work shows that SSA needs to improve its work measurement system for it to be a reliable basis for work force planning, but we believe SSA can make these improvements.

DEMONSTRATION PROJECT FOR PERSONNEL

We have concerns regarding the requirements for proposed demonstration projects relating to personnel matters. We believe the proposals are overly broad, with no limits on the number of employees participating in or the time period for the projects. The time frame for evaluating the results and reporting appears to be too short to permit any valid conclusions. Finally, we note that the Office of Personnel Management (OPM) already has authority in chapter 47 of title 5, U.S.C., to permit similar demonstration projects.

PAY FOR KEY TECHNICAL AND PROFESSIONAL STAFF

We believe that raising the current level of pay for SSA's key technical and professional staff, as the bill would allow, should go a long way towards attracting and retaining quality people. However, we are concerned that the legislation appears to grant the board authority to appoint staff totally at its own discretion, without spe-

cific regulations or criteria to protect the interests of the government. While there may be a legitimate need for SSA to have an increased number of senior executive service and executive-level positions, SSA should be required to justify the extent of such an increase in accordance with OPM regulations. We also believe that the amount of salary that can be paid to hire high-quality managers and technical staff under the bill is too low. As we have stated on many occasions in the past, executive pay levels should be raised. It is difficult to attract highly skilled technical managers from the private sector, where pay scales are much higher. SSA officials have told us repeatedly that they have had difficulties attracting high-quality executives because of inadequate pay levels.

OMB'S INVOLVEMENT IN APPORTIONMENT PROCESS

We also have concerns over the provision in the bill that would restrict OMB's involvement in the apportionment process. We do not favor constraining OMB's authority under the Antideficiency Act. But recognizing the concern over how OMB might use the process, the provision in the bill could be revised to require OMB to report to the Congress any restriction of or deduction from SSA's apportionment with an explanation of why OMB took that action.

Prepared Statement of Gene Lehrmann

The American Association of Retired Persons (AARP) appreciates this opportunity to testify on improving confidence in Social Security by establishing an independent agency to administer the program and by providing personal benefit statements to workers. These are important matters and we commend Senator Moynihan for his dedicated leadership in both areas.

I. INDEPENDENT AGENCY

AARP supports S. 216, introduced by Senator Moynihan, which would create an independent agency to administer the Social Security and Supplemental Security Income (SSI) programs. Adoption of S. 216 would improve public confidence by ensuring that these programs are administered in a stable and professional manner.

The Social Security Administration (SSA) one of the largest and most widely known Federal agencies, directly serves the needs of over 38 million beneficiaries and indirectly touches the lives of almost all Americans. It issues new and replacement Social Security cards, maintains the wage records of 133 million workers, and processes millions of claims and information requests annually. SSA's workload will continue to increase as the population ages and the workforce continues to grow. In order to accommodate this growing workload and improve the quality of service to beneficiaries, SSA must function in a stable environment that is conducive to long-range planning. Also, it should be run by competent, professional management and adequately staffed by knowledgeable people in order to serve the public effectively.

A. History

When Social Security was enacted in 1935, an independent Social Security Board was established to administer the programs in the Social Security Act. It operated as a free-standing agency with jurisdiction over both social insurance and means-tested programs. In 1939 this board was placed under the then newly-organized Federal Security Agency. In 1946 the board was abolished and replaced by a single administrator. When the Department of Health, Education and Welfare replaced the Federal Security agency in 1953, the Social Security Administration was grouped together with an array of welfare, rehabilitation, drug, education and health services programs in the new department. In 1977 the Medicare and Medicaid programs were removed from SSA's jurisdiction.

Today the Social Security Administration is the largest federal agency without independent status. (Only the Veterans' Administration was bigger, and it recently was elevated to cabinet status.)

B. THE NEED FOR STABLE AND INDEPENDENT LEADERSHIP

The need for strong, stable, and independent leadership at SSA is one of the most powerful arguments for creating an independent agency. Throughout most of its history it was hailed as a hallmark Federal agency providing quality service to the public in a cost effective way.

However, since the late 1970's SSA has endured successive and rapid turnover in its top leadership. Between 1978 and 1983, there were three Commissioners of Social

Security, each serving two years or less, followed by several acting commissioners. In fact, SSA has had ten commissioners over the last fifteen years; in contrast to only eight commissioners in the preceding 25 or so years. With the change of administrations, the status of the current commissioner remains unclear. This situation creates problems for SSA.

The short tenure of the many recent SSA commissioners, has contributed to the agency's inability to establish clear management priorities or develop a consistent direction. As the General Accounting Office (GAO) reported in 1987 ("The Social Security Administration: Stable Leadership and Better Management Needed to Improve Effectiveness") SSA has been unable to correct significant, long-standing problems in management and service delivery, provide a clear and consistent sense of direction to its components, adequately control its systems modernization efforts, or focus on personnel management.

The changing faces in the commissioner's office have also produced counterproductive agency reorganizations that often accompany a change in leadership. Between 1975 and 1983 four major internal reorganizations took place. Not only do such reorganizations consume precious time that otherwise could have been used to implement existing plans, but they also inhibit the growth of a stable cadre of professional managers.

The current relationship between the Social Security Commissioner and the secretary of Health and Human Services (HHS) can contribute to leadership problems at SSA. Social Security is but one part, albeit a very significant part, of the HHS umbrella. The secretary, of necessity, must divide his or her time among the various HHS components. Moreover, the secretary acts as an intermediary between the Commissioner and the President. At times this can be beneficial, but at others it can be detrimental, especially when the HHS Secretary knows little about Social Security or is understandably preoccupied with other departmental business.

C. The Need For Improved Operational Efficiency and Effectiveness

SSA is responsible for large-scale activities of crucial importance to millions of Americans, and it ought to have a greater say over its own resources, policy, and budget. Yet as the GAO reports the agency's operations sometimes have been marked by confusion and the absence of a sense of direction.

SSA's efforts to modernize its automated data processing system exemplify the problems inherent in SSA's current status. It takes years to plan, design, and build a comprehensive computer system of the magnitude needed by SSA. However, the size and complexity of the ADP problem is hard to grasp for new management. As a result, some of the shorter-term commissioners, perhaps recognizing the tenuousness of their position, focused only on one or two aspects of the problem. This meant that the agency fell further and further behind. Although Commissioner Hardy has sought to modernize the ADP system rapidly, problems persist, especially in the software development area.

The current status of SSA makes it more vulnerable to the imposition of policies and practices of other Federal agencies. The most conspicuous example of such policy making belongs to the Office of Management and Budget (OMB) ordered five year, 17,000 person staff reduction. The OMB proposal largely resulted from a desire for short-term budget savings, not from considerations of what is best for the overall management of the agency and the public it serves.

Reducing the number of staff in local SSA offices has diminished the quality of service to Social Security beneficiaries. OMB'S action was unwarranted since the program's administrative costs, financed out of the trust funds, already are extremely low. Such staff reductions have no real effect on the current causes of the Federal deficit.

While not as significant as OMB in impact, the role of the Office of Personnel and Management (OPM) and the General Services Administration (GSA) also affect the agency's operations. OPM policies and procedures, especially OPM-established salary rates, have hampered the agency's efforts to recruit and retain some computer specialists. Also, OPM has not always provided SSA with lists of qualified personnel for other top level positions in a timely manner. GSA has sometimes been slow in obtaining space, and, in some cases, actually procured unsuitable sites.

AARP supports the provision in S. 216 would grant an independent Social Security agency with demonstration authority to perform certain management functions controlled by OPM and GSA. specifically, it would be able to recruit, compensate and manage personnel; and acquire and maintain facilities and automated data processing (ADP) equipment.

D. Developing Public Confidence

During the late 1970's and early 1980's public confidence in Social Security waned noticeably because of the financial difficulties the system faced prior to 1983, and the use of Social Security as a "political football" during the annual budget debate.

Current and future beneficiaries must know they can count on a Social Security system that not only provides adequate financial benefits, but also provides competent, effective and humane means of delivering the services associated with these benefits. An independent agency should be less affected by political factors—it should be better insulated from the fluctuations in politics and policy that produce sudden shifts in direction. An independent agency would strengthen the agency's long-term commitments and protect it from unwarranted upheavals in senior level management. It would make a strong statement to the American people that Social Security is self-financed and that policy and budget decisions affecting the program ought to be reached independent of other Federal Government short-term decisions wherever possible. A free-standing Social Security agency recognizes that the program represents a social contract between the American people and their government which has lasted over 54 years, and that will endure for a long time to come.

AARP believes an independent SSA represents an important step toward further rebuilding of public confidence in the program. It would be a clear signal to the American people that Congress is committed to protecting the Social Security program for the long-term and ensuring that the daily functioning of the Social Security program would be stabilized. The confidence of the American people can only be maintained if they are assured that the program is being administered in a fair, efficient and professional manner.

II. SOCIAL SECURITY ACCOUNT STATEMENTS

Fortunately, the pessimism that surrounded Social Security in the early 1980's is dissipating, but an encouraging upsurge in public confidence cannot be taken for granted. AARP believes that the improved workers' confidence in the Social Security system needs to be cultivated through all available means, and we believe that a periodic Social Security statement to workers could enhance that confidence.

Such a statement has several additional benefits besides building worker confidence in the system. First, by listing the benefits the program provides, it reminds workers that Social Security is a comprehensive family protection plan that replaces income lost by the worker and his/her family when the wage earner retires, becomes disabled, or dies. Workers will be able to see that Social Security deserves their support.

Also, the benefit statement is a valuable retirement planning tool, especially for those who are nearer to retirement. S. 1079 recognizes the value of these statements and makes them mandatory for workers 60 and over by FY 1994. AARP believes that to maximize the value of these statements they should include information about offsets, the effects of divorce, and other relevant information that could affect the benefit amount.

The Social Security statements also contain important information regarding a worker's earnings record. Workers who receive these statements on a regular basis will be able to verify their earnings records and make any corrections before the statute of limitations has expired.

In 1987, the General Accounting Office reported serious inaccuracies in SSA's earnings records from the 1979 to 1984. Left uncorrected, these mistakes could result in some workers receiving an incorrectly calculated benefit amount. Wage earners who have received the SSA-provided Personal Earnings and Benefit Estimate statement (PEBES) have the opportunity to make the corrections if they can document the errors.

Based on the initial response to SSA's announcement regarding PEBES many persons sought information about their status under Social Security. However, it appears that interest has waned. S. 1079 provides for an ongoing publicity campaign to maintain interest by mandating that the Secretary take the necessary steps to inform the public about the statements.

AARP has a few concerns about the legislation, but these reservations are major. First, the Association believes the bill should contain language specifying that the benefit statements be written in simple and understandable language. Second, any statement on Medicare benefits should not only include a description of benefits but also should include the current and future dollar value of these benefits. Also, benefit estimates to younger worker need to be carefully explained. Long-term benefit projections are subject to change because of unforeseen events, and an incorrectly estimated benefit might even undermine confidence. Finally, AARP believes SSA

staffing levels should be carefully monitored so that workers who normally perform other tasks are not reassigned to tasks associated with these statements, including answering questions generated from those who receive them.

AARP supports the principles behind S. 1079 and S. 216 and is prepared to work with the chairman in promoting the legislation.

PREPARED STATEMENT OF MARTHA A. MCSTEEN

Mr. Chairman, I am Martha A. McSteen, President of the over five million member National Committee to Preserve Social Security and Medicare.

We welcome the emphasis you are placing on improving public confidence in Social Security. Social Security is the foundation on which workers build to protect themselves against the loss of income due to retirement, disability or death. Many employers use the Social Security system as a base for structuring employee benefits. The Social Security system is indeed essential to the American way of life. Yet confidence in the system has been shaken. Seniors are concerned about a decline in service and in the future of the system. The young are concerned that Social Security will not be there for them when they retire despite the payroll taxes they pay. All are concerned about "their" Social Security and that Social Security be fair, whether to workers, disabled widows, working spouses or Notch babies.

No proposal would do as much to restore public confidence in the system as would the adoption of your legislation, S. 216, to make Social Security an independent agency once again. The National Committee's Legislative Plan for the 101st Congress specifically calls for supporting legislation that would return the Social Security Administration to an independent agency. We made your proposal our priority because it is our conviction that a return of Social Security to independent status would remove the agency a step from the political pressures that have lessened the effectiveness of the agency and undermined public confidence in the integrity of the agency.

The hallmark of the Social Security Administration through the years has been "Service to the Public." For many years this value was upheld. When the millions of Americans, who worked hard and paid Social Security taxes, came to file for benefits, they rightly expected to receive accurate information about their entitlement in a timely and courteous manner. Generally, Americans were well-served. As time passed, however, the leadership of the Social Security Administration became politically oriented. Taxpayers who ask questions about Social Security are now experiencing misinformation, confusion and bureaucratic rigidity due to political leadership.

In the past I have spoken in opposition to the concept of an independent Agency, because I had faith that the Social Security Administration could be effectively managed to fulfill its commitment to the present and future generations. I have changed my point of view because I believe that faith has been broken.

For example:

- Surveys of managers and employees conducted by SSA, the General Accounting Office and the American Federation of Government Employees union have all reported declining service as a result of budget-driven staff reductions.
- The Administration has been less than vigorous in opposing proposals to cut or tax Social Security benefits in 1985, 1987 and 1989.
- The Administration has refused to initiate action to stop the use of Social Security trust funds to balance the budget or to reduce the unnecessarily high payroll tax rates.
- Public education campaigns about the value of Social Security to today's workers have been weak and ineffective.
- The failure to reconcile all earnings in a timely manner has further shaken the confidence in Social Security as doubt arises about the posting of earnings that determine future benefits.

Mr. Chairman, you have already demonstrated leadership on a number of these issues, as you did most recently as a member of the National Economic Commission. Seniors have been able to count on you to fight benefit cuts. You have introduced the Social Security Trust Funds Sanctity Act (S. 219) and the Social Security Trust Funds Saving Act (S. 922), which would end the use of Social Security trust funds and payroll taxes to balance the budget. Your legislation (S. 1079) to require SSA to periodically send a Personal Earnings and Benefit Estimate Statement to every worker over 25 is an important element in a public education campaign to point out the value of Social Security to today's workers.

If Social Security was already an independent agency, however, we believe that it would already have addressed most of these issues and given Congress the benefit of its recommendations.

Current fears and misconceptions will be overcome only when responsibility for Social Security and Supplementary Security Income is placed in the hands of a bipartisan board committed to the program and given full authority to select and employ an executive to administer the agency in accordance with the board's directives. Social Security should be managed solely in the interest of American workers and retirees, and not to satisfy political agendas.

Board meetings, conducted in public, would result in policy decisions and suggestions for program modifications that would take into consideration the views and desires of America's workers to whom Social Security rightly belongs. No longer would recommendations for major modifications arise unexpectedly from ideological wellsprings, such as the 1981 Administration proposal for a 26 percent benefit cut.

An independent board whose primary commitment is to workers and retirees would have both the authority and the forum for stimulating public debate before changes were proposed. Board members appointed for set terms would be free to defend Social Security from ideological excesses and unwarranted attacks whether from the right or the left. And board members could demand that the executive, employed to administer the agency, devotes his or her effort full-time to professional program administration, rather than to divisive partisan political activities.

A Social Security Board should be given full authority for management of the Old Age, Survivors and Disability Insurance Trust Funds. If all investment decisions are made by the board, public confidence in the integrity of the trust funds will be enhanced and there would be no repetition of the 1985 trust fund disinvestment. There would be, in our view, no need for additional trustees beyond the members of the Social Security Board. While the Secretary of the Treasury would continue to manage the money, he or she should no longer be a trustee.

The National Committee takes no position on the appropriate number of members of the Social Security Board or on the length of their terms. The key element of this legislation is the protection of Social Security, not the size or tenure of the board. We support the provisions of the legislation that would authorize separate advisory councils for Social Security and Medicare.

Mr. Chairman, the National Committee supports the creation of an Office of Beneficiary Ombudsman as called for in your legislation. We also urge you to adopt a Beneficiary Bill of Kights. Social Security beneficiaries must have someone to whom they can take problems when they have been wronged or are dissatisfied with the service received. An ombudsman could provide feedback to the Board about policies that are inequitable. A Beneficiary Bill of Eights, similar to the recently passed Taxpayer Bill of Eights, would increase the confidence of workers and beneficiaries in Social Security. The appendix to my statement includes a proposed Beneficiary Bill of Eights for your consideration.

Our country will continue to face a number of important Social Security issues; the use of the trust funds, the financing of Social Security, taxation of benefits, and the retirement test are just some of the measures that directly affect the financial well-being of nearly every American. Now is the time to reassure all Americans that Social Security is sound, reliable, and still has the flexibility to adjust to current and future needs. Never has there been a greater need for stability in the system, and confidence in its management. Your proposal for an independent agency is truly essential to restore public confidence in Social Security.

Mr. Chairman, thank you for the opportunity of appearing before your Subcommittee.

Enclosure.

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

PROPOSED SOCIAL SECURITY BENEFICIARY BILL OF RIGHTS

Information provided to the Social Security Administration will not be released to unauthorized parties. The proliferation of the use of Social Security account numbers as identifiers for public and private purposes threatens the security of Social Security records. Information from Social Security records should not be divulged to other individuals, outside interests or other Federal, State or local agencies, except as provided by law, or without the written consent of the number holder or his or her legal representative. Under no circumstances, should the Social Security Administration sell, exchange, verify or otherwise release information from Social Se-

curity records to commercial interests without the written consent of the Social Security account number holder.

Individuals conducting business with the Social Security Administration are entitled to privacy.

Adequate space and appropriate sound barriers are not now provided when beneficiaries are interviewed by claims and service representatives so as to insure the confidentiality of conversations.

Claims and service representatives faced with heavy workloads have been known to conduct group interviews during which participants are asked and expected to answer questions of a personal nature in the presence of other members of the group. This is wrong and violates the participants right to privacy.

Individuals inquiring as to benefit eligibility or otherwise conducting business with the Social Security Administration, whether in person or by telephone, are entitled to a record of contact containing, at a minimum, a summary of the business transacted and the identity of the Social Security representative by whom they were assisted.

Inadequate training and/or too frequent employee turnover has resulted in inaccurate information being provided to claimants by inexperienced representatives. Months and even years of benefits can be lost if a claimant relies on the information provided and does not insist on fillng a claim. A written record of the inquiry and response would entitle the claimant to retroactive benefits when the error was subsequently detected. The record of contact would also permit the Social Security Administration to identify the source and frequency of erroneous responses and to take corrective action.

A written record of contact with a confirmation mailed to callers is particularly essential for telephone service. Communication which is not face to face, deprives the service representative of the opportunity to observe reactions of the questioner to be sure information provided is understood. A record of a telephone contact questioning eligibility for Social Security or Supplementary Security Income benefits should be routinely accepted as a protected filing date for benefits if a formal application is completed within ninety days.

Within reason, individuals should have the right to choose the type of service they prefer and the service they choose should be competent and courteous.

Social Security District and Branch Offices should be located in convenient, well-lighted and well-maintained areas of a community. Access by public transportation should be a major consideration in site selection, but adequate parking should also be available. Properly designed signs and locator maps should direct clients to offices located in multiple-office complexes or malls. Handicapped access should be provided at every location.

District and Branch Offices should remain accessible by telephone. Efforts to intercept all callers and demand use of an 800 number has left clients and family members of Social Security employees unable to reach local offices in emergencies.

Regardless of the type of service, claims and service representatives must give each client adequate time to understand fully the information being provided or the questions being asked by the client.

Social Security applicants are entitled to timely service, including appointments and hearings scheduled with a minimum of delay, timely issuance of initial and reconsideration determinations and hearing decisions, and timely post-entitlement changes.

Because SSA has selected certain work activities for productivity measurements, other work activities are frequently neglected such as postentitlement name and address changes and underpayment recomputations.

Four to six week waits for appointments, which are now commonplace, highlight the inadequacy of present staffing. Such waits aggravate financial hardship, particularly for individuals filing disability claims. Applicants who make appointments to apply for benefits should be assisted in completing their applications during the appointment so that return visits are not required. Every effort should be made to be responsive to requests for walk-in service, especially for persons recently bereaved who need to report a death or file for survivor benefits or for those who have traveled extensive distances.

Wage records should be posted in a timely manner and every effort made to insure their accuracy through reconciliation with IRS tax records.

Recent problems with reconciliation of earnings records highlight the necessity to give priority attention to this issue. Accuracy of benefit payments depends on the integrity of wage records which are often thirty to forty years old.

PREPARED STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN

We meet today for a subcommittee hearing on two bills aimed at improving public confidence in the Social Security program.

S. 216 would remove the Social Security Administration from the Department of Health and Human Services and reestablish it as an independent executive branch agency headed by a bipartisan three-member board. This would be a return to the original structure. The Social Security Act of 1935 established the original Social Security Board, which was charged with administering the Old-Age Insurance program created by the Act. I am pleased that today we will hear from Mr. Robert J. Myers, who played a role in planning the original program and has spent his life on it. We also have with us the Honorable Robert M. Ball, whose association with SSA started in 1939 and who served as Social Security Commissioner for 11 years, from 1962 to 1973, longer than any one else who has held that post.

SSA was placed into a larger umbrella agency in 1939. That may have seemed symmetrical then. Social Security was still a small program. Today, SSA's budget accounts for over 62 percent of the budget of the Department of Health and Human Services. And yet it is difficult to find SSA in the HHS management hierarchy.

In addition, SSA has had 10 Commissioners in the last 16 years. Little needs to be added here. One served in the Carter Administration for only 12 months. Not in an acting capacity. A Commissioner, confirmed by the Senate. Twelve months.

And then there is the extraordinary disinvestment fiasco. We learned in November 1985 that the Treasury Secretary had been secretly disinvesting the Social Security Trust Funds. And in no small sums. $28 billion in 1985. $10 billion in 1984. And did the Social Security Commissioner know? Was the secretary of Health and Human Services told? No, and neither were the public trustees informed, nor the Congress. It was a covert activity.

We shouldn't be surprised that the American public has no confidence in the Social Security program. In 1979, Peter D. Hart Research Associates conducted a nationwide public opinion survey for the National Commission on Social Security on the public's attitude toward Social Security. The survey showed that 61 percent of nonretired adults had little or no confidence that funds would be available when they retired. The public's confidence had sunk even lower by 1985 when a survey by Yankelovich, Skelly & White showed that 66 percent, two-thirds, of nonretired adults thought it unlikely they would see their retirement benefits. Two-thirds!

Public survey data for 1988 from the American Council of Life Insurance show that there has been some improvement in public confidence in Social Security in the last few years, probably as a result of the Social Security Amendments of 1983. The survey results indicate that the percent of nonretired adult Americans who are not confident in the future of Social Security has declined to 51 percent. I welcome the news. But I suggest that the fact that half of American workers do not believe in Social Security is not something we should be satisfied with. And I put it that this lack of public confidence remains the biggest problem facing Social Security. The system is, after all, a compact across generations. The willingness of young workers to fund the system rests on the confidence that it will be there for them when they need it.

Reestablishing SSA as an independent agency headed by a bipartisan board will help restore public confidence in Social Security by showing that the Government recognizes that this program, with its 39 million recipients and 125 million contributors, is too important for even the possibility of political manipulation. This is the reason the independent agency idea was endorsed in the January 1983 report of the bipartisan National Commission on Social Security Reform. It is past time to act on this recommendation. We must let the American public know that the Government takes seriously its role as trustee for the Nation's pension system.

The second bill to be considered, S. 1079, would require SSA to send biennial account statements to workers telling them what they have paid into the system and what they can expect to get back in the way of benefits.

People really know very little about the way Social Security works. As a result, they are easily misled. Easily alarmed. Witness the rise of movements which seem to have little purpose save to terrify the aged.

The problem is that you never hear from SSA until you retire or die. We pay into Social Security all our lives, and in every paycheck see the money withheld, but nary a word from the Social Security Administration.

The solution is to do what Canada did. We have now moved to a partially funded system as they did in the 1960s. Now it is time to have regular reports of the kind they instituted in 1985. And I note that the Canadian Social Security agency,

Canada Pension Plan, has been kind enough to provide a representative, Mr. Donald Walsh, to testify today as to their experience with this program.

A final word. A warning really. Either we do these things or we see the system picked apart. Plundered for cash by OMB and demagogues.

OVERVIEW OF PRESENT LAW AND ESTIMATED BUDGET EFFECTS OF THE MEDICARE CATASTROPHIC INSURANCE PROGRAM AND DESCRIPTION OF POSSIBLE PREMIUM OPTIONS

(PREPARED BY THE STAFF OF THE JOINT COMMITTEE ON TAXATION, MAY 25, 1989)

INTRODUCTION

The Senate Committee on Finance has scheduled a hearing on June 1, 1989, on the estimated budget effects of the Medicare catastrophic insurance program and supplemental premium options under the Medicare Catastrophic Coverage Act of 1988.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a discussion of present law, estimated budget effects, distribution of the supplemental premium, and possible premium options.

Part I of the document provides a summary description of present law relating to Medicare benefits and financing of the benefits. Part II compares the estimated budget effects of the Medicare catastrophic insurance program when the Act was enacted and the current estimates by the Congressional Budget Office and the Administration. Part III provides data on the distribution of the current Medicare supplemental premium by income group, and Part IV discusses possible options to modify the premium. Finally, the Appendix describes the method for deriving the distributional estimates.

I. PRESENT LAW

A. MEDICARE BENEFITS

In general

Medicare is a nationwide health insurance program for the aged and certain disabled persons. Medicare consists of three parts: the hospital insurance program (Part A), the supplementary medical insurance program of Part B (SMI), and the catastrophic drug insurance program of Part B (CDI).

Individuals who have attained age 65 and who are eligible for monthly social security or railroad retirement benefits are covered under Part A of Medicare at no cost. Part A coverage is also available at no cost to certain disabled individuals who have not attained age 65 and to persons who have end-stage renal disease. Persons who have attained age 65 and who are not eligible for social security or railroad retirement benefits may obtain Part A coverage providing they pay for the coverage. The monthly premium for such coverage, as of January 1, 1989, is $156.

Within limits, Part A of Medicare provides coverage for inpatient hospital care, skilled nursing facility (SNF) care, home health care, and hospice care.

Coverage under Part B, which includes the SMI and the CDI programs, is voluntary. All persons age 65 or older and individuals eligible for Part A benefits by virtue of disability or end-stage renal disease may elect to enroll in both these programs by paying the monthly premium. Enrollees may not elect to enroll in only one of these programs.

SMI covers doctor's services, other medical and health services e.g., laboratory and other diagnostic tests, ambulance services, outpatient services at a hospital), and certain home health services not covered under Part A. SMI covers 80 percent of the reasonable charges for such services, subject to a deductible. Beginning in 1990, enrollees in Part B will also be eligible for prescription drug benefits.

Benefits under the Medicare Catastrophic Act of 1988

The Medicare Catastrophic Act of 1988 ("the Act") significantly expanded the benefits covered by Medicare. Major changes to the benefits are described below.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Overview of Present Law and Estimated Budget Effects of the Medicare Catastrophic Insurance Program and Description of Possible Premium Options* (JCX-9-89), May 25, 1989.

Part A benefits

Inpatient hospital care.—Under the Act, Medicare pays all hospital inpatient costs above an annual deductible amount ($560 for 1989). Under prior law, the number of days covered by Medicare was limited for a single spell of illness, covered individuals paid a deductible for each spell of illness, and coinsurance amounts were payable after the 60th day in each spell of illness. The Act eliminated the concept of a spell of illness, which began with a hospital admission and ended on the 61st day following discharge from the hospital or from a skilled nursing facility (SNF) entered after the hospital stay.

Skilled nursing facility care.—Under the Act, the limit on SNF care is 150 days per year, and no prior inpatient stay is required for coverage. Coinsurance payments are required for the first 8 days of care each year, at a rate of 20 percent of average SNF costs per day ($25.50 for 1989). Under prior law, the limit on SNF care was 100 days per spell of illness, after a hospital stay of at least 3 days. Coinsurance payments were required for days 21 through 100 at a rate of 1/8th of the deductible amount ($67.50 for 1988).

Home health care.—Under prior law and the Act, there is no limit on the overall number of covered home health care visits and no coinsurance requirement. To be covered, home health care visits must be required on an intermittent basis. Under prior law, the intermittent requirement was interpreted to mean that there could be 5 to 7 visits a week, for 2 to 3 consecutive weeks. Under the Act, beginning in 1990, covered individuals may receive up to 38 consecutive days of home health care, 7 days a week.

Hospice care.—The Act eliminated the 210-day lifetime limit on hospice care.

Part B benefits

SMI benefits.—Beginning in 1990, the Act expands Part B benefits as follows. Each enrollee's annual liability for Part B copayments is capped. The cap is $1,370 for 1990, and will be adjusted each year to keep the proportion of enrollees subject to the cap constant at 7 percent. Part B coverage is expanded to include mammography screening for women, subject to a maximum of $50 (indexed) per screening and the usual copayment requirements. In addition, once sufficient costs have been incurred to receive benefits under either the copayment cap or the new drug provisions (see below), enrollees are eligible for respite benefits. Under this benefit, Medicare will pay 80 percent of reasonable costs for up to 80 hours a year of in-home personal services, to give the usual caretakers of homebound enrollees a respite.

Catastrophic drug insurance.—Effective January 1990, the Act provides coverage for drugs administered intravenously at home and for immunosuppressive drugs after the first year following a transplant, subject to an annual deductible amount of $550. Coinsurance of 20 percent will be required on drugs administered intravenously, while coinsurance will initially be 50 percent for newly-covered immunosuppressive drugs. (Medicare already covers 80 percent of the costs of immunosuppressive drugs in the first year following an organ transplant.)

Effective January 1991, the CDI program will be expanded. Coverage will include all outpatient prescription drugs and insulin, subject to an annual deductible amount ($600 in 1991) that will be adjusted each year to keep the proportion of enrollees paying the maximum deductible constant at 16.8 percent. Coinsurance requirements will be 50 percent of reasonable charges above the deductible in 1991, 40 percent in 1992, and 20 percent in 1993 and subsequent years.

B. FINANCING OF MEDICARE BENEFITS

Part A benefits

Part A benefits are financed through the Hospital Insurance Trust Fund. This trust fund is financed primarily through payroll tax contributions paid by employers, employees, and the self-employed. The payroll tax rate for 1989 is 1.45 percent of compensation up to $48,000 per employee. An equal amount is paid by the employer. Self-employed individuals pay both the employers' and employees' portion of the tax.

SMI benefits

SMI benefits are funded through the Supplementary Medical Insurance Trust Fund (SMI Trust Fund) by premiums paid by enrollees in the Part B program and general revenues. In 1989 a temporary provision requires that enrollee premiums provide 25 percent of the financing of Part B. Thereafter, premium rates will be derived annually based upon the projected costs of the program for the coming year, but premium increases will be limited to increases in the social security cost-of-living adjustment. Therefore, the share of benefits financed by premiums is expect-

ed to drop below 25 percent, while the general revenue share will grow. The basic Part B monthly premium for 1989 is $27.90, without regard to the additional premium added by the Act (see below).

Financing of benefits under the Medicare Catastrophic Coverage Act of 1988

In general

The new benefits provided by the Act are financed through the combination of (1) an increase in the Part B flat monthly premium and (2) a new supplemental premium based on income tax liability. It is anticipated that the supplemental premium will finance approximately 63 percent of the costs under the Act, and that the flat premium will finance the remaining 37 percent of costs.

Flat premium

The Act provides for increases in the monthly Part B premium otherwise determined to finance the catastrophic coverage benefit and the prescription drug benefit. Through 1993, the amount of the increase is set by law. After 1993, the flat premium is adjusted through use of a formula that is designed to maintain a reserve in the Catastrophic Coverage Account and the CDI Trust Fund (see below).

For 1989–1993, the additional flat monthly premium for Part B enrollees is as follows: [2]

Year	Catastrophic coverage premium	Prescription drug premium	Total catastrophic flat premium
1989	$4.00	$.00	$4.00
1990	4.90	.00	4.90
1991	5.46	1.94	7.40
1992	6.75	2.45	9.20
1993	7.18	3.02	10.20

Supplemental premium

The supplemental premium is payable in a year by any individual who is eligible for Part A of Medicare for at least 6 months during the year (except for those who pay the Part A premium), who has income tax liability for the year of at least $150, and who resides in one of the 50 states or the District of Columbia. Subject to a limit on the maximum premium payable by an individual, the annual premium is determined by multiplying (1) the supplemental premium rate by (2) the amount determined by dividing the individual's adjusted income tax liability by $150.

For years 1989 through 1993, the supplemental premium rate is set by law. For years after 1993, the supplemental premium rate is adjusted by a formula that is designed to maintain a reserve in the Catastrophic Coverage Account and the CDI Trust Fund (described below).

The supplemental premium rate is equal to the sum of the catastrophic coverage premium rate and the prescription drug premium rate as follows:

Year	Catastrophic coverage premium	Prescription drug premium	Toatl supplemental premium	Total percent rate*
1989	$22.50	$.00	$22.50	15%
1990	27.14	10.36	37.50	25
1991	30.17	8.83	39.10	26
1992	30.55	9.95	40.50	27
1993	29.55	12.45	42.00	28

* This column shows the total supplemental premium as a percent of tax liability.

The maximum annual supplemental premium shall not exceed the following amount:

[2] Residents of Puerto Rico, other U.S. commonwealths or territories, and individuals not entitled to or eligible for Medicare Part A have different premium schedules.

In the case of taxable years beginning in—	The limitation is—
1989	$800
1990	850
1991	900
1992	950
1993	1,050

For years after 1993, the cap on the maximum supplemental premium is increased through the use of a formula (see below).

Married individuals who both are eligible for Part A benefits for at least 6 months during the year are treated as a single individual for purposes of the supplemental premium, except that the maximum limit on the supplemental premium is doubled (e.g., $1,600 for 1989). If only one spouse is Medicare-eligible for 6 months of the year, income tax liability is determined as one-half of the tax liability of the joint return.

In the case of married individuals filing separate returns, the individual is treated as Medicare-eligible for 6 months if either the individual or the individual's spouse is so eligible. In addition, the maximum supplemental premium is twice the supplemental premium if, without regard to the rule in the preceding sentence, both spouses are Medicare-eligible for 6 months of the year. This provision is designed to prevent the supplemental premium from creating an incentive for married taxpayers to file separate returns.

Accounting

The receipts from the catastrophic coverage supplemental and monthly premiums fund the health and supplementary medical insurance portions of the catastrophic benefit (i.e., the increases in Part A and SMI benefits). The receipts from the prescription drug supplemental and monthly premiums fund the prescription drug benefits. These two sources of receipts and benefits are accounted for separately.

The prescription drug benefits are funded by the Catastrophic Drug Insurance Trust Fund (the "CDI Trust Fund"). All receipts attributable to the drug portion of the premiums are placed into the CDI Trust Fund and all payments for the benefits and administrative costs relating to covered drugs are drawn from the CDI Trust Fund.

Receipts attributable to the monthly flat catastrophic coverage premium are allocated to the SMI Trust Fund. Receipts attributable to the supplemental catastrophic coverage premium are allocated to the SMI Trust Fund and a newly created Federal Hospital Insurance Catastrophic Reserve Fund, with the division determined by the outlays from the catastrophic hospital insurance program. Outlays for catastrophic coverage are made from the Part A Hospital Insurance Trust Fund and the SMI Trust Fund.

In order to account for the receipts and outlays of the catastrophic coverage program separately from the prescription drug program, a bookkeeping account, known as the Medicare Catastrophic Coverage Account (the "Catastrophic Coverage Account"), was created. The balance recorded in the Catastrophic Coverage Account represents the cumulative financial position of the catastrophic coverage program.

The Catastrophic Coverage Account is used to calculate monthly and supplemental catastrophic coverage premium rates after 1993 in a manner intended to maintain a contingency reserve in the Catastrophic Coverage Account. Similar adjustments are made after 1993 to the monthly and supplemental prescription drug premiums based on the balance in the CDI Trust Fund.

Adjustments to premiums after 1993

After 1993, the monthly and supplemental premiums and the supplemental premium cap are adjusted through the use of a formula. The formula is designed to maintain a reserve equal to 20 percent of annual outlays in the Catastrophic Coverage Account and, by 1996, a reserve in the CDI Trust Fund of 20 percent of annual outlays. The catastrophic coverage supplemental premium is adjusted by a percentage reflecting the past growth of per capita Medicare catastrophic coverage outlays relative to premiums paid, recent inflation, and the excess or shortfall of the balance in the Catastrophic Coverage Account of 20 percent of annual outlays in a preceding year. Similar calculations are performed for the prescription drug supplemental premium rate based on the balance in the CDI Trust Fund. In no case may the total supplemental premium rate increase over the prior year's premium by

more than $1.50 or one percentage point of tax liability. The premium may not decrease under the formula.

Adjustments in the maximum supplemental premium cap after 1993 are based on the relative per capita growth of Part B outlays to Part B premiums in preceding years. The cap will be rounded to the nearest $50.

The formula for adjustments in the monthly premium, after 1993, is similar to the formula used for the supplemental premium. The Congress intended that the monthly premium continue to provide 37 percent of the revenues for the catastrophic program and the supplemental premium is to provide 63 percent of such revenues, however, the proportion could vary as a result of limits on allowable change in the supplemental premium. If the change in the supplemental premium rate as calculated by formula is limited by the restrictions on annual increases or decreases, then the change in the monthly premium is designed, with certain adjustments, to account for any excess or shortfall.

II. Budget Effects of Medicare Catastrophic Coverage Act of 1988

A. CATASTROPHIC RESERVE FUNDS BALANCES

Congress intended, in the Medicare Catastrophic Coverage Act of 1988, to maintain a surplus of funds to pay for benefits covered under the Act. As described above, the record keeping of these reserve funds is accomplished through the Medicare Catastrophic Coverage Account and the Catastrophic Drug Insurance Trust Fund.

Table 1 presents estimates of the calendar year-end balances in the Catastrophic Coverage Account and the CDI Trust Fund that were made upon enactment of the Act, and estimates based on the current Congressional Budget office (CBO) baseline.[4] The estimates made upon enactment indicate a calendar year 1993 year-end balance in the Catastrophic Coverage Account of $1.6 billion and of $1.7 billion in the CDI Trust Fund. As a percentage of calendar year 1993 outlays, these balances are 20.5 percent in the Catastrophic Coverage Account and 57.6 percent in the CDI Trust Fund.

The current CBO estimates of the balances in the Catastrophic Coverage Account and the CDI Trust Fund at calendar 1993 year-end are $5.7 billion and $2.3 billion, respectively. As a percentage of calendar year 1993 outlays, the balance in the Catastrophic Coverage Account is projected to be 71.9 percent and the balance in the CDI Trust Fund is projected to be 76.9 percent. The February 1989 CBO estimate of the calendar 1993 year-end combined balance is $8.0 billion, which is $4.7 billion more than the combined balance of $3.3 billion estimated upon enactment.

B. RECEIPT AND OUTLAY EFFECTS

In order to generate contingency reserves in the Catastrophic Coverage Account and CDI Trust Fund, it is generally necessary for cumulative receipts to exceed outlays. The cumulative excess of receipts over outlays will not match the combined balance of the Catastrophic Coverage Account and the CDI Trust Fund reserve amounts due to credits and debits of interest and the difference in the timing of receipts and outlays between fiscal and calendar years.[5]

Table 2 presents estimates prepared by CBO for the February 1989 budget baseline of 1989 through 1993 fiscal year receipts and outlays of the Medicare catastrophic program. For comparison, Table 2 also presents corresponding estimates of the program prepared by CBO and the Joint Committee on Taxation at the time of enactment of the Act and Administration estimates from the Fiscal Year 1990 Budget.

The cumulative excess of receipts over outlays for fiscal years 1989 through 1993 is $8.0 billion according to the current CBO estimate. This recent estimate exceeds by $3.8 billion the estimate of the cumulative excess of $4.2 billion made upon enactment.

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[4] The current CBO estimates reported in Tables 1 and 2 differ from the amounts used in the February 1989 budget baseline. The estimates in the tables include expected outlay amounts for the administration of the drug benefit that have not yet been appropriated and, thus, are excluded from the baseline used for budget purposes. Estimates that include the expected outlays necessary for the administration of the drug benefit may reflect more accurately the total budget effect of the Act and are also consistent with the estimates made upon enactment.

[5] Both the Catastrophic Coverage Account and the CDI Trust Fund are credited with interest in periods for which they are in surplus, and debited for interest when in deficit.

The Administration estimates that the cumulative excess of receipts over outlays for fiscal year 1989 through 1993 is $6.2 billion. This total is $1.8 billion less than the current CBO estimate, but $2.0 billion more than the CBO estimate upon enactment. The Administration estimates, however, that the CDI Trust Fund will have insufficient funds to make all benefit payments in 1992 and, thus, will not make payments for eligible drug benefits for calendar year 1993.

The Administration estimates of receipts from the monthly and supplemental premiums and outlays for the hospital and supplemental medical insurance and the catastrophic drug benefit are all different from the current CBO estimate. The Administration estimates that the level of cumulative receipts from the supplemental premium over fiscal years 1989 through 1993 are greater than that of the current CBO estimate. Much larger outlay estimates by the Administration, particularly for the drug benefit program, however, more than offset the Administration's higher receipts estimates over the period.

TABLE 1.—CURRENT CONGRESSIONAL BUDGET OFFICE ESTIMATE OF MEDICARE CATASTROPHIC ACCOUNT AND DRUG TRUST FUND EFFECTS, END OF CALENDAR YEARS 1989–1993

[In billions of dollars]

	1989	1990	1991	1992	1993
Final Estimate Upon Enactment					
Catastrophic Account: [1]					
End-of-year balance	0.1	1.0	0.9	1.3	1.6
Balance/same year's outlays (in percent)	4.4%	20.2%	14.9%	19.1%	20.5%
Drug Trust Fund [2]					
End-of-year balance	0.0	0.2	1.2	1.6	1.7
Balance/same year's outlays (in percent)		149.4%	99.0%	74.9%	57.6%
Current CBO Estimate					
Catastrophic Account [1]					
End-of-Year balance	0.3	2.5	3.3	4.6	5.7
Balance/same year's outlay (in percent)	17.3%	51.0%	54.2%	67.1%	71.9%
Drug Trust Fund [2]					
End-of-year balance	0.0	0.3	1.5	2.0	2.3
Balance/same year's outlays		174.4%	118.1%	92.1%	76.9%

[1] The Medicare Catastrophic Coverage Account covers the hospital insurance and supplemental medical insurance portions of the Medicare catastrophic program.

[2] Administrative expenses for the Federal Catastrophic Drug Insurance Trust Fund have not been appropriated, so they are not included in the CBO baseline. Estimates of the Drug Trust Fund administrative expenses are included in this table for purposes of comparison.

TABLE 2.—ESTIMATES OF MEDICARE CATASTROPHIC BUDGET EFFECTS, FISCAL YEARS 1989–1993 [1]

[In billions of dollars]

	1989	1990	1991	1992	1993	1989–1993
Estimate Upon Enactment						
Supplemental premium receipts	−0.3	−4.2	−4.9	−5.7	−6.5	−21.7
Flat premium receipts	−1.1	−1.8	−2.7	−3.6	−4.1	−13.3
Outlays	1.3	4.2	6.7	8.4	10.1	30.8
Net budget effect	−0.1	−1.8	−1.0	−0.8	−0.5	−4.2
Current CBO Estimate						
Supplemental premium receipts	−0.4	−5.4	−6.1	−6.7	−7.3	−25.9
Flat premium receipts	−1.2	−1.8	−2.7	−3.6	−4.1	−13.5
Outlays	1.3	4.2	6.8	8.7	10.5	31.4
Net budget effect	−0.3	−3.1	−2.0	−1.6	−1.0	−8.0
Administration Estimate [2]						
Supplemental premium receipts	−0.6	−6.5	−7.1	−6.9	−7.3	−28.3
Flat premium receipts	−1.2	−1.8	2.7	−3.6	−4.1	−13.4
Outlays	1.2	4.0	7.8	11.3	11.2	35.5
Net budget effect	−0.5	−4.4	−2.0	0.9	−0.2	−6.2

[1] These estimates are for the hospital insurance, supplemental medical insurance, and drug benefit programs of the Medicare Catastrophic Act of 1988. Provisions relating to Medicaid and other miscellaneous provisions of the Medicare Catastrophic Act are not included here. Estimates include unappropriated funds for the administration of the CDI Trust Fund. Totals may not add exactly due to rounding.

[2] Administration estimates are from the Fiscal Year 1990 budget. The Administration estimates that there will be insufficient funds in the Drug Trust Fund to pay all benefits in 1992 and assumes no payments for calendar year 1993 drug benefits.

III. Distributional Effect of the Supplemental Premium

Based on current estimates of supplemental premium receipts, Tables 3 and 4 present distributions of the supplemental premium paid by Medicare enrollees. Tables 5 and 6 present distributions, by income, of the amount of supplemental premium at the average tax liability paid by Medicare enrollees.

Table 3 presents a distribution of the amount of supplemental premium paid per enrollee. It is estimated, for calendar year 1989, that 58.8 percent of Medicare enrollees will pay no supplemental premium and that 5.6 percent of enrollees will pay the maximum premium of $800. These figures compare to the estimates made upon enactment of 64.4 percent and 5.1 percent, respectively.

Table 4 presents the corresponding distribution for calendar year 1993. It is estimated that 52.4 percent of Medicare enrollees will pay no supplemental premium and that 10.3 percent of enrollees will pay the maximum premium of $1050 in 1993. These figures compare to the estimates made upon enactment of 57.5 percent and 9.8 percent, respectively.

The distribution of the amount of supplemental premium paid at the average tax liability across income groups, by filing status, in 1989 is displayed in Table 5.[6] For joint returns, no supplemental premium is due, on average, below the $20,000 to $25,000 income class, and below the $15,000 to $20,000 income class for non-joint returns. The maximum premium is not reached, on average, until the $80,000 to $85,000 income class for joint returns, and the $40,000 to $45,000 class for non-joint returns.

The corresponding figures for 1993 are presented in Table 6. As is true in 1989, no supplemental premium is due, on average, below the $20,000 to $25,000 income class, and below the $15,000 to $20,000 income class for non-joint returns. The maximum premium is rot reached, on average, until the $65,000 to $70,000 income class for joint returns, and, again, the $40,000 to $45,000 class for non-joint returns.

TABLE 3.—MEDICARE CATASTROPHIC COVERAGE ACT OF 1988 DISTRIBUTION OF MEDICARE ENROLLEES BY LEVEL OF SUPPLEMENTAL PREMIUM

[Calendar year 1989]

Supplemental premium per enrollee	Medicare enrollees (thousands)	Percent distribution
Not subject to premium	19,248	58.8
Less than $1000	4,031	12.3
100 to 199	2,824	8.6
200 to 299	2,024	6.2
300 to 399	1,093	3.3
400 to 499	626	1.9
500 to 599	335	1.0
600 to 699	460	1.4
700 to 799	261	0.8
Maximum Premium ($800)	1,848	5.6
Totals	32,750	100.0

Joint Committee on Taxation

[6] The income measure used, solely for presenting distributional analysis, is defined more broadly than adjusted gross income, and does not affect, in any way, the amount of tax liability and supplemental premium paid by a particular taxpayer.

TABLE 4.—MEDICARE CATASTROPHIC COVERAGE ACT OF 1988 DISTRIBUTION OF MEDICARE ENROLLEES BY LEVEL OF SUPPLEMENTAL PREMIUM

[Calendar year 1993]

Supplemental premium per enrollee	Medicare enrollees (thousands)	Percent distribution
Not subject to premium	18,387	52.4
Less than $100	2,302	6.6
100 to 199	2,555	7.3
200 to 299	1,599	4.6
300 to 399	1,648	4.7
400 to 499	1,270	3.6
500 to 599	1,187	3.4
600 to 699	914	2.6
700 to 799	744	2.1
800 to 899	473	1.4
900 to 999	240	0.7
1,000 to 1,049	145	0.4
Maximum Premium ($1,050)	3,612	10.3
Total	35,076	100.0

Joint Committee on Taxation.

TABLE 5.—MEDICARE CATASTROPHIC COVERAGE ACT OF 1988

[Calendar year 1989]

Income class (thousands of dollars)	Average income per return [1]	Average tax liability per return	Supplemental premium per enrollee [2] (per month)
Joint Returns			
$0 to $5	$2,597	$0	$0.00
5 to 10	7,701	−14	0.00
10 to 15	12,556	−27	0.00
15 to 20	17,514	13	0.00
20 to 25	22,516	396	2.48
25 to 30	27,545	930	5.81
30 to 35	32,378	1,559	9.74
35 to 40	37,599	2,281	14.26
40 to 45	42,374	3,057	19.11
45 to 50	47,516	4,147	25.92
50 to 55	52,052	4,991	31.19
55 to 60	57,527	6,683	41.77
60 to 65	62,609	8,204	51.28
65 to 70	67,491	9,848	61.55
70 to 75	72,097	10,166	63.53
75 to 80	77,757	10,239	63.99
80 to 85	82,424	12,258	66.67
85 to 100	90,057	14,942	66.67
100 to 200	136,677	25,315	66.67
200 and up	643,630	139,278	66.67
Non-Joint Returns			
$0 to $5	$3,071	$0	$0.00
5 to 10	7,056	−1	0.00
10 to 15	12,376	105	0.00
15 to 20	17,196	576	7.20
20 to 25	22,219	1,410	17.63
25 to 30	27,274	2,035	25.44
30 to 35	32,333	2,902	36.28
35 to 40	37,254	4,773	59.66
40 to 45	42,840	6,396	66.67

TABLE 5.—MEDICARE CATASTROPHIC COVERAGE ACT OF 1988—Continued

[Calendar year 1989]

Income class (thousands of dollars)	Average income per return [1]	Average tax liability per return	Supplemental premium per enrollee [2] (per month)
45 to 50	47,076	7,637	66.67
50 to 75	58,098	9,486	66.67
75-100	87,280	17,041	66.67
100-200	138,035	30,268	66.67
200 and up	666,848	137,122	66.67

Joint Committee on Taxation.

[1] Income is defined, solely for purposes of presenting distributional information, as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computations of AGI.

[2] Computed at average tax liability per return in income class.

TABLE 6.—MEDICARE CATASTROPHIC COVERAGE ACT OF 1988

[Calendar year 1993]

Income class (thousands of dollars)	Average income per return [1]	Average tax liability per return	Supplemental premium per enrollee [2] (per month)
Joint Returns			
$0 to $5	$2,357	$-9	$0.00
5 to 10	7,930	-12	0.00
10 to 15	12,771	-32	0.00
15 to 20	17,417	-21	0.00
20 to 25	22,449	240	2.80
25 to 30	27,458	554	6.46
30 to 35	32,520	911	10.63
35 to 40	37,453	1,592	18.57
40 to 45	42,376	2,319	27.06
45 to 50	47,445	3,099	36.16
50 to 55	52,384	4,068	47.46
55 to 60	57,230	4,958	57.84
60 to 65	62,383	6,530	76.18
65 to 70	67,341	7,607	87.50
70 to 75	72,377	8,596	87.50
75 to 80	78,037	9,598	87.50
80 to 85	83,161	10,791	87.50
85 to 100	91,755	13,676	87.50
100 to 200	137,632	23,372	87.50
200 and up	623,120	136,694	87.50
Non-Joint Returns			
$0 to $5	$2,885	$0	$0.00
5 to 10	7,54	-1	0.00
10 to 15	12,156	39	0.00
15 to 20	17,333	376	8.77
20 to 25	22,380	1,020	23.80
25 to 30	27,412	1,649	38.48
30 to 35	32,373	2,295	53.55
35 to 40	37,257	3,604	84.09
40 to 45	42,631	4,856	87.50
45 to 50	47,400	6,670	87.50
50 to 75	60,698	9,044	87.50
75 to 100	87,293	14,592	87.50
100 to 200	130,153	28,074	87.50
200 and up	534,697	113,030	87.50

Joint Committee on Taxation.

[1] Income is defined, solely for purposes of presenting distributional information, as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computations of AGI.

[2] Computed at average tax liability per return in income class.

IV. Description of Possible Premium Options

In light of the revision of the budget estimate relating to the Medicare catastrophic program, various options for changes to that program have been proposed.

A. RETAIN PRESENT LAW

Many argue that it would be inappropriate to make significant modifications in the catastrophic Program because the Act only became effective in 1989. In fact, certain benefits are not yet in effect under the program. Therefore, these individuals argue that there has not been sufficient experience in order to evaluate accurately the costs related to the program. Given the uncertainty associated with estimating the cost of future medical benefits, these individuals argue that it is inappropriate to reduce any available funds that might be needed in the future. In addition, any reserves in the program accumulated in early years may be used to limit the increase in future premium rates.

B. REDUCE THE MONTHLY OR SUPPLEMENTAL PREMIUM

In general

Some individuals argue that the premium for catastrophic coverage should be reduced because more revenue is projected than is needed to fund the benefits provided under the program. If this approach were adopted, the monthly or supplemental premium, or both, could be reduced.

Several options are available to reduce the supplemental premium.[7] The options for such a reduction include: (1) reducing the maximum amount of premium that an individual may be charged; (2) reducing the premium rate that is applied to each $150 of income tax liability, and (3) increasing the minimum amount of income tax liability before which any supplemental premium is due. In addition, a combination of one or more of the these options might be adopted. Any reduction could be made solely with respect to premiums paid for 1989 or for future years as well.

Reduce cap on maximum supplemental premium

The maximum amount of supplemental premium ($800 for 1989) for an individual could be reduced. Adoption of this approach would benefit only those individuals who otherwise would pay more than the revised maximum supplemental premium. In general, these individuals are those with higher incomes.

Reduce the premium rate

Under present law, the supplemental premium for 1989 is $22.50 for each $150 in income tax liability (i.e., a 15-percent tax on income tax liability). The premium rate is increased for future years. The percentage rate of the supplemental premium could be reduced. Adoption of this approach generally spreads the savings that is achieved through the premium reduction to persons in all income classes. Except for those at the maximum premium level, the effect of this option is to reduce the amount of premium proportionally to the amount that is paid under present law.

Increase the tax liability threshold

Under present law, in order to be liable for the supplemental premium, individuals must have at least $150 in income tax liability. However, eligible individuals are covered without regard to whether or not they meet this $150 threshold. Under this option, the threshold could be raised so that more low-income individuals would not be liable for the supplemental premium. Further, the calculation of the premium could be changed so that only tax liability in excess of the threshold would be subject to the supplemental premium.

If there were no change in the method by which the premium is calculated (i.e., each $150 of tax liability for those with tax liability in excess of the threshold continues to be subject to the premium), then the savings from an increased threshold would be realized by those who would be below the new threshold. If the calculation were changed so that the premium applies only to the tax liability in excess of the

[7] This discussion assumes that, in general, the present structure for calculating the supplemental premium is retained.

threshold (e.g., income tax liability above the new threshold is subject to the premium), then an increase in the threshold would reduce supplemental premium payments by-equal dollar amounts to all individuals paying the premium except for those below the threshold and those who are currently at the maximum premium level.

C. REPEAL THE SUPPLEMENTAL PREMIUM

One proposal would repeal the supplemental premium and replace it with some other financing mechanism, such as a broad-based tax. Proponents of this view argue that it is unfair for high-income beneficiaries to subsidize those beneficiaries with low incomes. They contend that if a subsidy for lower-income beneficiaries of the catastrophic program is to be provided, then it should be financed by all taxpayers, not just by those individuals with higher incomes who are eligible for catastrophic benefits.

Those who support the supplemental premium argue that the premium is an appropriate method for funding the catastrophic coverage because only the potential beneficiaries of the program are required to pay for catastrophic coverage. Overall, every individual enrolled in Medicare will continue to receive a subsidy from general revenues and payroll taxes. Individuals who support this view argue that the income-related supplemental premium provides for an equitable distribution of the cost of the program.

D. REPEAL THE MEDICARE CATASTROPHIC PROGRAM

One option that has been proposed is to repeal both the coverage provided under the Medicare catastrophic program and the funding mechanism that was contained in the Act. Some argue that the costs imposed by the monthly and supplemental premiums exceed, for certain individuals, any possible benefit they may receive from the Medicare catastrophic and drug coverage. They argue, therefore, that the program should be repealed.

Other individuals point out that many of those covered receive substantial benefits under the Act and that all individuals eligible for Medicare will, on average, receive a benefit package that is subsidized by general revenues and payroll taxes. They argue that all individuals receive Medicare benefits in excess of what they pay in premiums, and that good social policy requires that such individuals be protected from the financial hazards of large medical expenses.

Appendix: Method for Deriving Distributional Tables

The staff of the Joint Committee on Taxation prepared the distributional tables on the amount of supplemental premium paid by Medicare enrollees. The distributions are prepared with the use of the individual tax model that is used for calculating changes in tax liability associated with proposed changes in the Federal individual income tax. The individual tax model utilizes a very large sample of actual individual tax returns collected by the Internal Revenue Service (IRS). To supplement the IRS data, demographic and economic information is included from a variety of sources including the Bureau of the Census and the Social Security Administration. The model is weighted to reflect the total projected population of potential taxpayers and is modified to be consistent with the most recent Congressional Budget Office economic forecasts.

Tax liability, as well as the supplemental premium, is calculated for each tax filing unit in the model. For each year analyzed, the calculation of tax liability and supplemental premium is performed using the relevant rates, brackets, and definition of taxable income, consistent with prevailing law for that year.

Tables 5 and 6 present estimates of the average supplemental premium per enrollee, per month. The estimates are based on the average tax liability within an income category using the definition of income normally employed for distributional analyses.

The income concept used is broader than adjusted gross income and is designed to more accurately reflect the flow of economic income available to the taxpayer. It is defined as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) the portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computation of AGI. Of course, the calculation of tax liability, and therefore the supplemental premium, is based on taxable income, and is in

no way dependent on the measure of income used as the classifier for distributional presentation.

PREPARED STATEMENT OF ROBERT J. MYERS

Mr. Chairman and Members of the Subcommittee; My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies from 1934 to 1970, being Chief Actuary the last 23 years. In 1979–81, I was a member of the National Commission on Social Security. In 1981–82, I was Deputy Commissioner of Social Security. Then in 1982–83, I was Executive Director of the National Commission on Social Security Reform. Currently, I am Chairman of the Commission on Railroad Retirement Reform.

The two bills introduced by the distinguished Chairman of this subcommittee are intended to improve public confidence in the viability of the Social Security program. I believe that they would most certainly do so. The first bill would remove the Social Security Administration from the Department of Health and Human Services and establish it as an independent agency that would be headed by a bipartisan board. The second bill would require that periodic statements be furnished to workers covered by the Social Security program to inform them about their earnings record and give estimates of potential retirement, disability, and survivor benefits. I shall discuss each bill in turn.

DISADVANTAGES OF PRESENT ADMINISTRATIVE STRUCTURE

The present location of the Social Security Administration as one component of the Department of Health and Human Services has a number of serious disadvantages and weaknesses. Similarly, the fact that the Medicare program has been separated from the Old-Age, Survivors, and Disability Insurance program from an administrative standpoint, and assigned to the Health Care Financing Administration, another component of HHS, also has serious disadvantages.

The current organizational structure produces an excessive number of layers of responsibility and authority for programs which represent such immense social and financial magnitude. The making of decisions is excessively slowed down by such layering of authority, including both that in HHS and that in the Office of Management and Budget. As a result, necessary and desirable action is often delayed so long as to be useless. An outstanding example of this is the infamous "notch" situation in the OASDI program, which could have been greatly alleviated by a feasible legislative change in 1981 (or even earlier), but never surfaced from the layers of review. This problem has been present for a number of years, in both Democratic and Republican administrations.

Another disadvantage of the present structure is that the district offices of the Social Security Administration have little responsibility in the area of Medicare, because it is primarily administered by HCFA. As a result, Medicare beneficiaries have no place where they can go to receive face-to-face information about the program.

Still another difficulty with the present subordinate position of SSA is that policy decisions of the OASDI program are often made for reasons other than program ones. In the past, some proposals have been put forth for general budgetary reasons, even though they were not good program changes.

PROPOSAL TO RESTRUCTURE THE SOCIAL SECURITY ADMINISTRATION

The bill that would restructure the Social Security Administration represents a significant step forward, and I support it strongly. An independent agency, the Social Security Board, with a bipartisan board heading it up would do much to restore confidence in the Social Security program.

It should be noted that confidence has been restored considerably since the low period in the early 1980s. An annual survey made by the American Council of Life Insurance shows that the proportion of respondents who were "not too confident" or "not at all confident" in the future of the Social Security system rose from 37% in 1975 to about 68% in 1982–84, but then decreased to 45% in 1988. This still leaves a long way to go until the level of confidence that the program deserves to have with the public is reached. This bill will certainly help to do so!

The bill does not bring the Medicare program under the jurisdiction of the new agency—as I believe to be desirable because Social Security and Medicare are really parts of a single national social insurance program. Such action could well be taken

later, after experience has demonstrated that the general concept is valid and appropriate.

The concept of having the Social Security program administered by an independent agency is not new and untried in this country. Such basis was applicable for the first decade of operation of the system and was highly successful. In my opinion, change was made only for the reason that the organizational chart of the Federal Government would look neater. In 1981 the National Commission on Social Security recommended independent agency status for both the Social Security and Medicare programs. Again, in 1983, the National Commission on Social Security Reform recommended independent status for the Social Security Administration, and proposed that further study of the matter should be made. This was done by the Congressional Panel on Social Security Organization in 1984, which recommended independent agency status under bipartisan control.

I have one suggestion for a change in the bill. It is provided that the three members of the Board should be appointed to staggered 6-year terms, with no more than two members being of the same political party. This could, at times, result in the undesirable situation of the Board consisting of only one member of the same party as the President and two members of the other party. The result could be political controversy and contention over policy recommendations. I believe that the Chairperson should be appointed by the President, with a term of office that is the same as that of the President. The other two members of the Board would have staggered 6-year terms and would be of opposite political parties.

It is essential that the Board members should be chosen on a truly bipartisan basis. In some respects, this may be difficult to achieve for the one member who is not of the same political party as the President. I suggest that, in order to accomplish bipartisanship, the following procedure should be adopted. The President should unilaterally appoint the Chairperson. The leaderships of the two political parties in the Congress should each submit a list of potential members to the President for selection of the other two members of the Board, followed by Senate confirmation.

A good precedent for this proposed organization of the Social Security Board is the Railroad Retirement Board, which has been successfully operating in this general manner for the last half century. The only difference is that the members of that board are not selected on a bipartisan basis, but rather the President appoints the Chairman, and then names one member from recommendations made by railroad employers and the remaining member from recommendations made by railroad-employee organizations.

PROPOSAL TO PROVIDE EARNINGS AND BENEFIT STATEMENTS AUTOMATICALLY

The bill that would provide statements of earnings and benefit estimates automatically, on a deferred, phasing-in basis, would also make a very desirable change, and I support it strongly. Such procedure will further develop confidence in the program by showing that it is well run and that significant benefits are available.

This procedure will build on the very successful beginning that the Social Security Administration has already made with its personal Earnings and Benefit Estimate Statements. That program began about a year ago and operates on the basis of requests from the insured persons. It may be noted that the National Commission on Social Security in 1981 recommended that this procedure should be adopted, initially on a "request" basis, and eventually automatically. Also, private pension plans are required to furnish complete benefit statements upon request, and many do so on an automatic basis.

I believe that an additional requirement for benefit projections should be introduced. The present statements have a serious weakness insofar as the projected retirement benefits are concerned. Such projections are properly expressed in terms of current (1989) dollars, but the assumption is made that real wages (i.e., the actual wages expressed in terms of current dollars) will increase by 1% per year (not compounded) until age 62 is attained. This results in showing benefit estimates that are unrealistically high for persons who are many years from retirement.

The remedy for this undesirable situation is to require that, if any assumption as to future increases in earnings is used, the statement must also show the underlying estimated earnings (in current dollars) in the year before assumed retirement. What is important to people is not the future benefits in terms of dollars, but rather the relationship between the benefit amount and the most recent earnings.

SUMMARY

Both of the bills would significantly improve the administration and public understanding of the Social Security program. This would increase confidence in the viability and role of the program.

PREPARED STATEMENT OF SENATOR DAVID PRYOR

Mr. Chairman, I commend you for holding this hearing on making Social Security an independent agency. This is a concept whose time has come and I appreciate this opportunity to testify before the subcommittee today.

Only recently, the Social Security Administration (SSA) was considered the flagship Federal agency for efficiency and quality of public service. Since then, SSA has lost its reputation for excellence, and problems continue to mount. A hearing I recently chaired of the special committee on aging revealed that SSA is attempting to shift much of its business to a badly overburdened and often inappropriate toll-free telephone system. Further, we uncovered that millions of Social Security numbers had been verified for private companies such as credit bureaus and banks—all in violation of the privacy act—and against previous SSA policy.

We must move rapidly to stop this trend toward a deteriorating quality of management. I therefore share your belief that one way to accomplish this is to make the SSA much more independent.

The bill you have introduced, S. 216, points the congress in the direction it should take: increasing the independence and improving the management of the Social Security Administration, which operates the most successful program in the history of our nation. As you know, I have sponsored similar legislation in the past and I would like to take this opportunity to ask that you add my me as a cosponsor of your bill.

Enactment of this long overdue legislation would greatly increase public confidence in Social Security because it will demonstrate to all Americans that this congress considers the program above the politics that change from administration to administration. Beyond the fact that SSA should be administered by high caliber public servants who have a strong commitment to their work and the people they serve, we must assure that the administrators of this important program are freed from unnecessary and inefficient political pressures.

Because the Social Security program is so large (representing 21 percent of Federal expenditures in fiscal year 1989) and so vital (39 million people receive benefits and 120 million pay Social Security taxes), it deserves to be administered by its own agency.

Yet, while there is no question that we must insulate SSA from political concerns, we must also ensure that it remains accountable to the people—through its elected officials in the Congress and the Presidency. We must all remain mindful of this and the constitutional implications of our approaches to ensure independence.

Independence of the judicial appeals process within SSA must be a high priority. I believe, Mr. Chairman, that the finance committee should enhance procedural fairness in what has been an adjudicative nightmare over the last decade. In the early 1980s, we witnessed the wholesale benefit terminations of thousands of truly disabled Americans, and an assault by SSA on the independence of ALJ's who sought to correct such abuses.

No longer should ALJ's be subject to political pressure by bureaucrats at SSA who try to save program dollars at the expense of eligible beneficiaries. Administrative law judges must be free to make independent review of cases. The independence of the judicial process must be sacrosanct; I am prepared to reintroduce legislation I have proposed to accomplish that purpose and it is my hope that you will join with me in this effort.

Mr. Chairman, we must also ensure that beneficiaries remain at the forefront of agency concern. The proposal in S. 216 to establish a beneficiary ombudsman would go a long way toward accomplishing this end. I have proposed, in legislation introduced before the 98th and the 100th Congresses, that the beneficiary ombudsman have the benefit of advice from a citizens' advisory committee, composed of employers; employees and beneficiaries. I hope you will consider this concept as part of an independent agency approach.

Further, I consider it essential that the beneficiary ombudsman can testify directly before congress. They should be positioned to encourage the administration to give primary attention to beneficiary concerns.

Finally, Mr. Chairman, we must keep in mind that experts remain divided on how best to structure the leadership of an independent agency. This committee should

consider that debate as it deliberates on the most prudent management of Social Security.

I expect this hearing will begin a lively debate in this committee over how best to restructure Social Security in the interests of virtually every American, who will someday be a beneficiary.

Mr. Chairman, thank you for this opportunity to testify, and I look forward to working with you to enact independence for Social Security.

PREPARED STATEMENT OF SENATOR DONALD W. RIEGLE, JR.

I thank the Chairman for holding this hearing on public confidence in the Social Security system. Social Security has become an increasingly important program since its inception. In fiscal year 1989, it will comprise 21 percent of all Federal expenditures. In addition, 39 million people will receive benefits, and 120 million people will pay Social Security taxes. With so many people affected by one program, public confidence in its administration as well as its solvency is an important step in restoring overall faith in the Congress and the Federal Government.

Unfortunately, anxiety over the future of Social Security exists. The system's once widely-held reputation for efficient, quality service has been deeply damaged by persistent management difficulties and questionable policies. Furthermore, the threats of insolvency in the early 1980s and attempts to cut benefits, limit eligibility, and reduce the number of beneficiaries have eroded belief that the system will provide the benefits workers have earned. Something must be done to insulate Social Security from the perennial budgetary and political battlefield.

Clearly, there is a need to improve management and policy making at the Social Security Administration. In the past, SSA wrongfully terminated thousands of disability beneficiaries from the rolls. Excessive staff cuts have hurt service as have problems with the toll-free telephone service. The administrative appeals process sorely needs to be reformed. And with ten commissioners and acting commissioners in the last 15 years coupled with a number of major internal reorganizations, the necessary leadership to handle these problems has been lacking.

Under the existing administrative framework, it is an open question whether effective leadership will bring about the necessary actions and policies to restore the integrity of the Social Security system. Given the experiences of the past, however, it would seem unlikely. As a result, removing the Social Security Administration from political control. by making it an independent agency is an important step in solving many of these problems.

The idea of independence was endorsed in the 1983 report of the bipartisan National Commission on Social Security Reform. I have long supported efforts to remove SSA from the political and budgetary arenas and am pleased to be a lead cosponsor of the Chairman's bill, S. 216. While management practices could improve without independence, independence should stabilize leadership of the Administration and thus enhance improvement. At the same time, the present coordination between the various other programs administered by HHS and Social Security must be guaranteed if independent status is achieved. Likewise, accountability for policies and actions by the new independent agency must be retained.

I am pleased also to be a cosponsor of the Chairman's initiative with regard to earnings statements. SSA should be commended for its recent decision to provide personalized statements; however, it is important that all those who pay into the system be apprised of the status of their benefits as well as their payments. The statements would also provide the critical function of making people aware of the range and value of benefits for which they are eligible and have paid taxes. The provision of this information should have the beneficial effect of restoring a degree of confidence in the system.

Those of us who have savings or checking accounts or other financial assets receive regular statements of account status. These statements help to provide us an overall view of our financial situation and therefore be better prepared to plan for the future. Regular statements also allow us to verify the accuracy of our accounts. Regular statements from SSA would do the same for participants in the system.

PREPARED STATEMENT OF P. ROYAL SHIPP

Mr. Chairman, Members of the Committee, I am pleased to respond to your request to discuss the Report and the recommendations of the Congressional Panel on

Social Security Organization submitted to this Committee and to the House Committee on Ways and Means on June 12, 1984.

This Panel was established by Public Law 98-21, the Social Security Amendments of 1983, and was directed to undertake a "thorough study with respect to the implementation of removing the Social Security Administration from the Department of Health and Human Services and establishing it as an independent agency in the executive branch with its own independent administrative structure, including the possibility of such a structure headed by a board appointed by the President, by and with the advice and consent of the Senate."

P.L. 98-21 directed the Panel to report the findings of its study, together with any recommendations it considered appropriate, to the Committee on Ways and Means and to the Committee on Finance. In addition, the authorizing amendments specified that the Panel's study should consider:

- the manner in which the transition to an independent agency would be conducted;
- the authorities which would have to be transferred or amended in such a transition;
- the program or programs which would be included within the jurisdiction of the new agency;
- the legal and other relationships with other organizations which would be required of an independent Social Security agency; and
- any other details necessary for the development of legislation setting up an independent agency.

While the House-passed version of the 1983 amendments called for a study of the "feasibility" of an independent agency, the Senate version and the final Bill specified clearly that the Panel's study should concentrate on "implementation" of an independent Social Security agency.

Consistent with the instructions of the law, the Panel did not weigh the merits of independence for the Social Security Administration as compared to its continued presence in the Department of Health and Human Services. Though the Panel's recommendations presumed independence, they should not be interpreted as an endorsement of it. Nor did the Panel endorse retention within the Department of Health and Human Services.

The law setting up the Panel and calling for its study also specified the professional qualifications of the members. The Chairmen of the Senate Committee on Finance and the House Committee on Ways and Means were instructed to select a three-member panel to be chosen ". . . on the basis of their integrity, impartiality, and good judgment from individuals who, as a result of their training, experience, and attainments are widely recognized by professionals in the fields of government administration, social insurance, and labor relations as experts in those fields."

Panel members selected by these Committee Chairmen filled admirably these demanding criteria laid down in the law. Elmer B. Staats, formerly Comptroller General of the United States, selected to be the Panel's Chairman, brought to this study a lifetime of work in high level public service and a degree of personal bearing and respect seldom matched. The Panel's two other members complemented the Chairman, and each other, forging together a strong, interdisciplinary team with the ability and experience needed to deal with the complex issues involved in setting up an independent agency for Social Security. Professor Martha Derthick of the University of Virginia, is a widely respected political scientist and author of several well-known studies of government agency and program management, including an excellent analysis of policy making in Social Security. Arthur E. Hess brought to the Panel experience gained during a career of top-level management in the Social Security Administration. Mr. Hess directed the Social Security Administration program divisions that implemented the Disability Insurance and Medicare programs. He capped his career with appointments as Deputy Commissioner and Acting Commissioner of Social Security.

These three panel members met completely the rigorous requirements specified in the law. Furthermore, they approached their task with enthusiasm, energy, and a sense of common purpose. It was clear from the beginning that this would not be a panel that rubber-stamped staff analysis and recommendations. In fact, the staff was hard pressed to keep up with them. The Panel agreed unanimously on its recommendations, and its report reflected the ideas and the language of the Panel members themselves to a degree unusual in studies of this type.

Now, Mr. Chairman, I would like to begin my discussion of the Report itself by describing briefly how the Panel went about its task. First it agreed on criteria to guide analysis of options to be considered and issues to be resolved in setting up an independent Social Security agency. Then the Panel held six public meetings and

heard from 53 expert witnesses as a means of gathering information, advice, and comments on proposed criteria. The full list of those witnesses is included in the appendix to the Panel's Report. They included former Secretaries of Health and Human Services, Commissioners of Social Security, officials from other agencies and departments, including the Office of Management and Budget and the General Accounting Office, experts in public administration, representatives from national organizations representing labor and the elderly, and Social Security employees themselves.

In addition, the Panel received reports, analyses, and studies from its own staff, the General Accounting Office, the President's Private Sector Survey on Cost Control (the Grace Commission), the Congressional Research Service, the National Academy of Public Administration and private contractors.

The Panel did not lack for information, nor did it lack opinions and ideas about how best to establish an independent Social Security agency. Indeed, although the Panel's charter was to develop an implementation plan for creating an independent agency, extensive testimony was presented bout the advisability of making the Social Security Administration independent. Given the Congress' clear mandate, however, the Panel's Report only addressed what—in its judgment—was the best course for the Congress to follow if it decided to make the Social Security agency an independent entity.

GENERAL CONCLUSIONS

Before listing the Panel's recommendations, let me note some general conclusions about Social Security operations based on testimony from expert witnesses and the reports available to the Panel. Information available to the Panel years ago painted a rather dismal picture of the state of Social Security program operations. Some of the Panel's recommendations reflected this assessment. Recent testimony from the Social Security Administration, supported by statements by the General Accounting Office, suggested that management changes implemented during this period may be showing improved operational efficiency in some areas.

There is no way to know, of course, whether a more contemporaneous account of operational baseline information would have lead to different recommendations. The Panel's report did emphasize that if an independent agency were established, its recommended structure would promote optimal operational effectiveness and efficiency.

That being said, in its 6 months of study, the Panel was impressed by Social Security's far-flung and complex operational and policy responsibilities. As they listened to witnesses and read about Social Security operations, certain themes were consistently repeated:

—There was wide-spread desire and expectation for the policymaking process for Social Security to be balanced. Both the President and the Congress are well-served if the long-range implications of policy proposals are clearly and effectively taken into account in the policy formulation process; and

—There was considerable evidence 5 years ago that the Social Security Administration, once considered one of the best-managed and most efficient agencies in the Federal establishment, no longer provided the quality of public service that the American people had come to expect and believe they have paid for with their contributions to the system.

Neither of these conclusions came as a surprise to the Members of Congress in 1984. The operational problems of the Social Security Administration had been widely discussed in the mass media in previous years, including the Social Security Administration's difficulties in modernizing its aging computer system, acquiring modern, accessible office space, and so on. These problems were dealt with in numerous reports of the General Accounting Office. Concern over the policy formulation process had been heightened in the late 1970s and early 1980s, due in large part to the financial difficulties of the Old Age, Survivors, and Disability (OASDI) programs. Efforts to reduce program outlays in those years, thought necessary to bring funding for the programs into balance, led many observers to believe that proposals were advanced to reduce benefits or tighten eligibility without adequate consideration of the long-term nature of the benefit obligations earned under Social Security.

EFFECT ON PUBLIC CONFIDENCE

During public hearings held in the early months of 1984, the Panel heard descriptions of a perceived decline of public confidence in Social Security. Furthermore, the Panel's Report refers to statistical survey data that tended to confirm this. Because

advocates of an independent agency for Social Security have argued that a change of organizational form would improve public confidence in the Social Security programs, the Panel sought to weigh the possible effects of various organizational changes on public perceptions. The Panel concluded that public confidence depends primarily on the fundamental financial soundness of the programs and on the public's belief that necessary program changes will be made with due regard for the immediate and long-term effects of those changes on the benefit structure.

Nevertheless, the Panel also concluded that organizational arrangements, particularly in the way they promote strong and stable agency leadership, are significant and do influence how policy is made and the efficiency and effectiveness of program management. Therefore, consistent with the legislative mandate, the Panel concentrated on developing an organizational plan for an independent agency that would provide an appropriate policy formulation process as well as strengthened management capabilities. The Panel concluded that if the Congress decided to create an independent Social Security agency, the recommendations could lead to efficient and effective program management—that this agency could, assuming continued strength in the program's financing, help to improve the public's view of the agency and the programs.

POLICYMAKING AND ADMINISTRATION FOR SOCIAL SECURITY

In considering a plan for an independent agency, one difficult issue the Panel faced concerned the policy formulation process. The Social Security Amendments of 1983, which authorized this study, directed the Panel to consider the possibility of establishing a bipartisan board with executive authority for the agency. According to those who testified in support of such a board, its primary advantage would be to create a forum for balanced deliberation of policy proposals, ensuring that full consideration be given to the effect of policy changes on current beneficiaries, those nearing retirement age, the working population, the disabled, and even the young and others who are or may be dependent on the program in the distant future. The Panel concluded that this policy perspective is essential for the OASDI programs; the President and the Congress must have objective and comprehensive analyses of the full range of policy options in the legislative decisionmaking process. Thus, one of the centerpieces of the Panel's plan for an independent agency was a recommendation to establish a permanent, bipartisan advisory board with six-year overlapping terms, to institutionalize the role now filled intermittently by advisory councils and ad hoc national commissions. The Panel considered that with the diverse, distinguished membership and strong charter that it proposed, both the President and the Congress could be assured that policy advice and analysis from the agency would be balanced, comprehensive, and far-sighted.

The Panel did not believe, however, that it would be appropriate for this Board to have command authority over the agency as a whole. In the Panel's view, strong management of very large and complex organizations requires the concentration of responsibility and authority in a chief executive—a single official capable, ideally, of providing energetic and decisive leadership.

While few would dissent from this principle as applied to operational responsibility, differences of opinion do arise over how best to organize for executive policy formation, which in our Government includes both the preparation of proposals for congressional action and the exercise of executive discretion in interpreting legislative intent.

Whereas good operational management, in the Panel's judgment, requires considerable autonomy—that is, the concentration of power in a responsible official—good policymaking requires the blending of competing views and the balancing of different perspectives on policy questions: Only to a limited extent can this balancing and blending take place within a single executive agency—the Social Security agency in this case. It is necessarily a far more inclusive process, engaging the President and Congress, who, by reason of having won elections, are responsible for making the most important decisions about public policy.

It should be a responsibility of the Social Security agency's top manager to develop and preserve its capacity to contribute to policymaking with advice, information, expert analysis, and the kind of judgment that is informed by the experience of program operations. Along with the ability to recall experience: what is often called institutional memory, and an important responsibility to look beyond the immediate future, these are the distinctive contributions that administrative agencies make to policy. The organization and leadership of the Social Security agency should, in the Panel's judgment, be designed to make these contributions to the President and Congress as promptly and vigorously as possible. The Panel concluded that an organization headed by a single executive would be able to fix responsibility for policy

advice. It would provide expert information, practical judgments, and a long-range view on policy questions more expeditiously and clearly than would a multimember deliberative body, which would be vulnerable to indecision, dissension, and diffusion of responsibility.

A form of organization designed for deliberation, representation, and adjustment of different viewpoints, as a multimember board would be, is appropriate to head an agency which has received an extraordinary delegation of broad adjudicatory and rulemaking power. The leading examples are the Tennessee Valley Authority, a public corporation created in 1933 to develop the Tennessee Valley, and the various independent regulatory commissions, which have broad powers to make and interpret rules—in effect, to act on behalf of the legislature and the executive—in their respective areas of jurisdiction. Congress, however, has made no comparably broad delegation to the Social Security agency. In the Panel's judgment, only if such a Congressional delegation were made, in effect substantially granting legislative powers for policymaking to an independent Social Security agency, would a multimember board be logical as a policymaking form.

As a form for administration, the Panel concluded that a multimember board has serious disadvantages in that authority would be diffused and policy and administrative roles can be confused. The assumption that the board would confine itself to policymaking and leave administration to a chief executive officer assumes incorrectly that the two spheres of activity can be clearly differentiated in practice, and it overlooks or unwisely discounts the danger that the chairman of the board and possibly other board members would involve themselves in administrative matters properly the responsibility of the chief executive officer. The Panel concluded that the Social Security program was urgently in need of strong direction and should not be exposed to the risks of contention between board members and the chief executive officer over who would be in charge. Such contention could exacerbate and prolong precisely those administrative problems that a reorganization should be designed to prevent.

Finally, the preeminent position of the chairman of a board would tend to diminish the stature of the agency's chief executive officer and make it more difficult to attract the type of strong and capable administrator necessary to resolve the agency's serious management problems.

Accordingly, the Panel recommended that an independent Social Security agency be headed by a single administrator in whom authority would be clearly and firmly lodged. At the same time, the Panel recommended establishment of a permanent, bipartisan advisory board with a strong, affirmative charter to ensure that the Administrator, the President and the Congress receive the best possible advice about policy changes in the Social Security programs and about the level of public service for beneficiaries. A board, structured as the Panel proposed, would help to protect the Administrator from partisan political pressures.

The Panel placed great importance on these recommendations. To resolve the Social Security Administration's perceived operational problems, a strong administrator was seen to be vital; on the other hand, an advisory board would be necessary, in the case of an independent agency, to provide an appropriate policymaking apparatus that could assure decisionmakers and the public that policy was being made in an evenhanded, bipartisan manner. The Panel recommended that the advisory board consist of nine members, no more than five of whom could be of the same political party. The President would appoint five members (no more than three of whom could be from the same political party), and to encourage bipartisanship and provide for congressional participation, the President of the Senate Pro Tempore would appoint two members (one from each party) and the Speaker of the House of Representatives would appoint two members (one from each party). All board members would be confirmed by the Senate and would serve six-year, staggered terms. The President would designate the chairman. Meetings of the board would be held at least bimonthly.

The Panel believed this advisory board could accomplish many of the objectives advanced by supporters of a full-time executive board. In particular, the advisory board would:

- carry forward the important symbolism of bipartisanship that was conspicuously successful in the work of the 1983 National Commission on Social Security Reform;
- help produce a more deliberative decisionmaking process;
- institutionalize the quadrennial advisory councils and minimize the need for ad hoc commissions; and
- become an important repository of institutional memory.

Specific functions of the advisory board, recommended by the Panel, would be to:

- make an independent assessment of the annual report of the Board of Trustees and report the results of this assessment to the President and the Congress;
- engage in public dialogue and education about Social Security;
- suggest to the President names to consider in selecting his nominee for Social Security Administrator;
- review and assess major legislative proposals regarding Social Security, including an assessment of the administrative feasibility and consequences of those proposals;
- review and assess the quality of service that the agency provides to the public;
- make an annual assessment of the progress in upgrading the agency's computer-based technology;
- review and assess the agency's progress in developing needed management improvements; and
- in consultation with the Administrator, review the development and implementation of a long-range research and evaluation plan for the agency.

Under the Panel's plan, the Advisory Board would have a detailed and important role to play in an independent Social Security agency. With distinguished and accomplished members, this Board would complement the strong Administrator whose first priority, as seen by the Panel in 1984, was the resolution of the Social Security Administration's operating problems.

OPERATING ISSUES

The Panel considered detailed information about the operational problems facing the Social Security program in 1984. These were summarized in the Panel's Report. The Panel was struck by the severity of those problems, particularly the pervasive effect of the Social Security Administration's inability to take full advantage of modern computer technology and the serious internal management issues that the agency would face when able to modernize its systems and procedures.

The causes of administrative difficulties found by the Social Security Administration in 1984 were myriad. It seemed clear to the Panel that frequent turnover of top leadership, repeated reorganizations, and continuous amendment of the Social Security Act, when coupled with inadequate systems support and restrictive controls imposed by the central management agencies of the executive branch, all played a part. The Panel's recommendations addressed these causes.

But the Panel also noted that not only did some of the Social Security Administration's management challenges result from circumstances beyond its direct control, but also that the agency and its employees do an admirable job under less than ideal conditions. On a cursory reading, the Panel's report may appear to be critical of the agency's shortcomings, but it emphasized that in the vast majority of cases, the Social Security Administration sends the right check to the right person in the right amount at the beginning of every month. The Panel concluded that the Social Security Administration can and should do better; its employees very much want to do a better job; and that its recommendations for strengthening the management of the Social Security agency would promote operational excellence.

The Panel concluded that the first step in that process would be to build stability and professionalism in the agency. Thus, the Panel recommended that the Social Security Administrator be selected on the basis of demonstrated competence as a manager, that the position be elevated to executive level II to attract the most qualified candidates and to provide status comparable to other independent agencies of the government, and that the Administrator be appointed for a term of 4 years, coinciding with the term of the President. While the first two points are fairly obvious, the four-year term was intended to create the expectation that nominees would, upon accepting the position, make an implicit commitment to stay at least through the term of the President. In other words, the position of Social Security Administrator should be a goal to be sought by the most qualified and experienced individuals. On the other hand, the Panel did not believe that a term exceeding that of the President would be appropriate since the administrator would speak for the President on Social Security issues and must have the President's full confidence.

MANAGEMENT AUTHORITIES

The Panel's Report emphasized that many of the Social Security Administration's 1984 operational problems were caused by—or at least exacerbated by—circumstances beyond the agency's direct control. One of those factors was the perceived tendency of the central management agencies of the Federal government, particularly the General Services Administration, the Office of Personnel Management and

the Office of Management and Budget, to over-regulate and over-control the operating agencies of the Federal establishment.

The Panel was influenced by a 1983 report by the national Academy of Public Administration, entitled "Revitalizing Federal Management: Managers and Their Overburdened Systems," which analyzed deleterious effects of centralized government-wide administrative regulations. In addition, the report of the President's Private Sector Survey on Cost Control (Grace Commission) pointed out that many agencies, the Social Security Administration in particular, are fully capable of managing their administrative services without unnecessary and duplicative oversight by control agencies. The Panel asked the National Academy of Public Administration, building on their earlier study, to recommend administrative authorities that could, if delegated to the Social Security Administration, improve its capacity to manage effectively. The Panel used the National Academy's analysis in reaching its own conclusions on these questions.

To improve the Administrator's ability to manage the new Social Security agency, and to achieve and be held accountable for results, the Panel recommended that the following management authorities be delegated to the extent now permitted by law:

- information resource management and automated data processing planning and acquisition authority;
- authority to acquire, operate and maintain the facilities necessary for the Social Security programs;
- personnel management authority to establish its own recruitment and examination program for entry level employees and to establish its own classification system for those job categories identified by the Administrator as unique and/or critical to agency operations.

The Panel's purposes in recommending these delegations was to balance authority and responsibility in the hands of the Administrator. The Panel concluded that the Administrator cannot be expected to be responsible for program performance unless provided the tools to achieve superior performance.

The budget process consumes time and energy of all Federal administrators. One of the National Academy's central findings was that the budget process for many agencies places unnecessary and burdensome demands on top management's time and attention. For stable agencies like the Social Security Administration, the cost of an annual budget, compared to less frequent budgeting, may not be justified. Thus, the Panel recommended that the Social Security Agency be authorized to present a biennial budget request to the President and the Congress.

The budget process can also be counterproductive when it is misdirected. The Panel agreed with the National Academy that agencies with workload-based administrative budgets should be required to submit workforce plans to the President and the Congress, and that once that plan is approved, agency management should be free to implement it without the imposition of arbitrary ceiling restraints. Thus, the Panel recommended that the Social Security Administration be required to submit such a workforce plan and that its administrative budget be based on dollar limitations rather than personnel ceiling controls.

PROGRAMS INCLUDED IN AN INDEPENDENT AGENCY

When the Panel began its deliberations, its members fully expected that one of the most difficult questions to answer would be, what programs should the new agency administer? In fact, a consensus was reached rather quickly on this issue. The Panel recommended an independent Social Security agency with responsibility only for the Old Age, Survivors, and Disability Insurance (OASDI) and the Supplemental Security Income (SSI) programs. Accordingly, the Panel recommended that programs administered by the Social Security Administration in 1984—Aid to Families with Dependent Children (AFDC), Child Support Enforcement, Low Income Energy Assistance, and Refugee Resettlement—should remain in the Department of Health and Human Services. (This particular recommendation has been made moot by the subsequent transfer of these welfare and social service programs from the Social Security Administration to a separate agency in the Department of Health and Human Services.) In addition, no other programs now outside the Social Security Administration's jurisdiction, including the Medicare and Medicaid programs, should be transferred to an independent Social Security agency. This recommendation followed from the Panel's conclusion that the OASDI and SSI programs constitute enormous management and operational challenges in and of themselves, and would require the full time attention of a strong administrator.

In the case of Medicare and Medicaid, the Panel heard testimony in favor of reuniting Medicare with Social Security, thus locating these social insurance, payroll tax financed programs in a single agency in order to improve beneficiary service.

The Social Security Administration provides certain administrative support services to the Health Care Financing Administration; Medicare applications are taken in the Social Security Administration's field offices, and the Social Security Administration provides beneficiary information and data to the Health Care Financing Administration from its computer system. Beneficiaries apply for Medicare in the Social Security Administration's field offices and many return to the Social Security Administration with questions on reimbursement, coverage, and the like. However, the Social Security Administration's field employees often are not in a position to respond to many of these questions and must refer many beneficiary questions to Medicare carriers and intermediaries. The Panel was advised that beneficiary service might be improved if the Social Security Administration was responsible for the program and field employees were better trained in Medicare policy and procedures.

The Panel recognized merit in these arguments, but decided on balance that it would be a mistake to place Medicare (and Medicaid, for the two medical insurance programs are forging increasingly important policy linkages) in the Social Security agency. Such a combination would be detrimental to the new Social Security agency, as well as to the Health Care Financing Administration and the Department of Health and Human Services. The Panel correctly predicted that national health care policy would be one of the most difficult and pressing social issues in the years ahead. Resolving these issues, still facing the Nation, will not only require the full time and attention of program managers, it will also require careful coordination among all Federal health care policymakers. Removing Medicare and Medicaid from the Department of Health and Human Services would make health policy coordination much more difficult, and would be enormously disruptive to the Department of Health and Human Services, to a new Social Security agency, and to itself. Therefore, the Panel recommended that Medicare and Medicaid remain in the Department of Health and Human Services with other Federal health programs.

Mr. Chairman, this completes my statement. I would be happy to answer your questions.

PREPARED STATEMENT OF JOHN N. STURDIVANT

Mr. Chairman, members of the Committee, my name is John N. Sturdivant. I am President of the American Federation of Government Employees (AFGE), AFL-CIO, which represents more than 700,000 Federal employees working throughout the government. On behalf of the 55,000 workers at the Social Security Administration (SSA) whom we represent, I thank you for this opportunity to testify on the establishment of Social Security as an independent agency and issuing of annual account statements for prospective Social Security beneficiaries.

The first subject I would like to address is S. 22, a bill which directs the SSA to provide annual statements of personal earnings and potential benefits for all workers covered by Social Security by the year 2000. AFGE recommended this measure to the Ways & Means Social Security Subcommittee at the time of its hearing on the failure of SSA to post $58.6 billion of workers' earnings.

We believe that the issuance of annual statements would serve three major purposes. First, public confidence in the Social Security system would be enhanced by the receipt of an official annual statement. Second, we believe that workers would welcome the statements for the opportunity they would provide to reconcile their own records with those of the SSA. Finally, the responsibility to issue these statements would encourage SSA to pay more careful attention to the posting of earnings.

AFGE does have some serious concerns relating to the implementation of this law. As a new service, the issuing of annual earnings and benefit statements will cost money and claim resources. It is difficult to predict with any accuracy just how much it will cost because of the very real possibility of unanticipated complications. For example, issuing statements might be handled successfully by few employees using mostly automated processes, and be relatively error-free. But just as likely is the possibility that divergences will be discovered between workers' private accounts and the SSA statements. While the time spent. reconciling these accounts would be well-spent, it would constitute a new service, and an increased workload for the already overburdened Social Security staff.

One of AFGE's greatest concerns with the SSA has to do with understaffing. Employees of SSA experience continual demands to do much more with much less: less in the way of material, human, and financial resources, and more in the way of handling increased functions for an increased number of beneficiaries.

To accommodate the costs associated with the provision of the new service, we ask that the Congress be certain to provide the additional resources necessary to meet the increased demand. Too often, the Congress enacts legislation without a concomitant increase in resources to implement the legislation. Thus, we recommend that S. 216 Section 234(b) be amended to add on item (3) to read: "The Secretary will report to the Congress as to the resources needed to implement the provisions above."

The other subject of today's hearing concerns S. 216, which would establish SSA as an independent agency. We believe that the consideration of this bill, S. 216, could not be more timely. The SSA is in a state of confusion and disarray. Morale among managers and rank and file workers has never been lower. The agency has been politicized to a degree that would have been unthinkable just a few years ago. Staffing has plunged from a Congressional appropriation level of 86,213 workyears in 1985 to the FY 1990 budget request level of 63,911 workyears, a difference of 22,302 workyears, or 26 percent.

Despite the fact that Congress has recognized the need for more staff, and has, in each of the last five fiscal years, appropriated additional funds for staffing, the agency has not fully utilized the funds for that purpose. (The funds, however, have been expended for other purposes.) These staff reductions have taken place while the senior population has risen by approximately 10 percent. In addition, SSA employees have been required to implement major new statutory requirements and effect major shifts in the way the SSA conducts its affairs. This has produced a significant addition to the workload of SSA employees, at the same time that the workforce has been vastly reduced.

The most recent General Accounting Office (GAO) report, "Views of Agency Personnel on Service Quality and Staff Reductions" (Feb. 1989—GAO/KRO-89-37BR) describes graphically the seriousness of the situation. GAO reports plummeting morale and the widespread existence of serious misgiving on the part of employees about the agency's current direction. Our union recently conducted a massive survey of the SSA workforce, collecting information on workers' attitudes toward their jobs, pay, support, and their opinions about the source of the problems they face. In most areas, AFGE's findings are consistent with those of the GAO. One particularly disturbing survey result shows that 42.8 percent of SSA's employees the field offices are currently looking for work outside of SSA.

The 26 percent staff reductions to which I referred to above were by and large justified by the adoption of a modernized computer system. Unfortunately, it must be said that this computer system has been a failure. Both the GAO and the Congress cautioned SSA about its leap into purchasing hardware and implementing the modernization before adequate field testing of the system occurred. Congress was promised, in the early 1980's, that the system of highly sophisticated and efficient hardware and software would solve the vast majority of what were then SSA's concerns. The system was to cost approximately $450 million and be completed by 1988.

An October 3, 1988, report by the Government Operations Committee paints an ugly picture of mismanagement, failed opportunities, and, in fact, corruption at the highest levels. To date, the computer system has cost at least $600 million. The SSA plans to spend another $500 million during the next few years, primarily on hardware needed to compensate for poorly designed software. The GAO has stated that by 1990 the SSA will have spent $1.1 billion and that the promised sophisticated software systems will not be in place until the mid 1990's, if ever.

The agency has thus been required to develop ways to alleviate its workload that will take the pressure of its inadequate and malfunctioning computer system. The shortcuts have been the subject of many hearings before this Committee and other Committees in the House and Senate. One such shortcut, the recent attempt to change the hearings and appeals regulations by restricting appeals, may be the most outrageous example of an agency which has lost sight of its historic mission and legal responsibilities. Millions of citizens could have been harmed if the Congress had not acted quickly and kept SSA from implementing changes in the appeals process. AFGE is proud to have played a role in making the agency's plan public.

Other changes which have already been implemented have resulted in making SSA the public's adversary rather than its advocate. Disability applicants are told to take the complicated application form home to complete. Disability reviews are not conducted in a timely manner. The "appointment system" in which the walk-in public is told to leave and call in for an appointment is used to dissuade and discourage beneficiaries and applicants. Social Security Insurance application and redetermination will no longer be done face-to-face. Protective filings often are not taken. Earnings are not properly posted. Claims are not fully developed. And it is likely that individuals becoming citizens under immigration reform will be denied

retirement, survivor's, and disability benefits because the Agency has made no effort to inform the population that there are serious problems with the posting of their earnings. The "800 number" initiative raises questions about the SSA's ability to implement orderly and effective change. It also raises serious questions with regard to SSA's approach to service delivery. The list goes on and on.

Most of the problems outlined above are of relatively recent origin. They flow from decisions made unilaterally by short-term political appointees and by the Office of Management and Budget in its zeal to see "savings" result from the investment in computer and systems modernization.

Unfortunately the "savings" have come at the expense of a vastly reduced workforce. As a result, the public is not as well served as it was just a few years ago. Former SSA Commissioner Robert M. Ball, in his testimony before the House Ways & Means Subcommittee on Social Security on March 1, 1989, made a persuasive case that the "savings" from systems modernization could as easily have been an opportunity to improve services to SSA's claimants and beneficiaries. An independent Social Security board, setting broad policy directions, would be far more likely to be interested in improving SSA's service to the public, and less likely to alter adversely the appeals process, and certainly not likely to spend SSA's resources in passing out SSN "negative verifications" (SSA's euphemism) to private concerns.

While the "Board" approach is no panacea for all of SSA's problems, it is an important step in depoliticizing the agency and assuring that those who run the agency, and determine its directions have as their greatest concern the integrity of the Social Security system and the interests of the public it serves.

AFGE's support for establishing the Social Security Administration as an independent agency is firm. However, our review of S. 216 raises several serious questions. As a labor union, AFGE has steadfastly maintained that all Federal employees should be treated equitably. To this end, we have consistently maintained that all legislative provisions pertaining to personnel embrace the concept of a civil service dependent upon merit principles.

S. 216 clearly provides that SSA would be established as an independent agency whose function would be to administer the OASDI and SSI programs. Under S. 216, the new independent SSA would be directed by a Social Security Board consisting of three members who would have broad authority in terms of personnel management without regard to many 'of the provisions of the existing personnel management policies and procedures comprising the merit-based civil service system. Initially, the Board could transfer only such personnel from HHS/SSA as it so desired. But we have concerns about what may happen to current SSA employees if they were not transferred to the new agency.

The bill purports to transfer all of the functions now carried out by the Secretary of HHS, with respect to OASDI and SSI, to the new independent SSA. AFGE believes that all personnel performing functions which are transferred, should also be transferred. In addition, all authorized full-time equivalent positions should be transferred along with pertinent appropriations. This is precisely what occurred when archival functions were transferred from GSA to National Archives. Based on this precedent, AFGE suggest amending Section 104 of the proposed bill to achieve this goal aid provide employee protections.

The new Board is given the same authority which now is vested in OPM to carry out demonstration projects with respect to its personnel. While it is true that AFGE has in many cases supported demonstration projects, we have done so when such projects were a joint effort among the employees, the agencies involved, OPM, and the Congress; carried out specifically to determine whether a specified change in personnel management policies or procedures would result in improved Federal personnel management.

Under the current demonstration project authority vested in OPM, both the employees who are to be affected by a proposed project, and their exclusive representatives have a meaningful opportunity to negotiate its design and implementation. Prior to implementation, a proposed project is subject to review not only by the employees and the agency, but by OPM and the Congress as well. Following this formula, each demonstration project becomes the product of careful deliberation by many responsible persons. This process insures fairness to all who are to be affected by a demonstration projects. S. 216 provides no such protections. Not only could all of the employees of the new independent agency be under a demonstration project, but the Board would have no obligation to consult with the employees since the projects could be established prior to the actual transfer of the employees from HHS/SSA to the new agency. The projects would not have to be approved by OPM or any other entity.

In short, the Board would be totally free to make its own choices with respect to personnel without any regard for the existing provisions of the civil service system. This prompts us to ask how are the merit principles upon which the civil service system is based to be assured under the provisions of S. 216? What rights and protections would the employees of the new independent agency have?

In light of this serious deficiency, AFGE recommends that language be added to the bill to insure that exclusive representatives are involved in the design and implementation of any demonstration projects. This could be accomplished by amending Section 103.

Current SSA employees are endowed with the benefits of the labor-management rights provisions of Chapter 71 of Title 5. In exercising those rights, many have chosen exclusive representatives. In such cases, both SSA and the employees have benefited from their negotiated agreements. The language of S. 216, particularly that contained in Section 105, seems to permit the new agency to modify or even terminate such agreements. There is no reason why employees should suffer the loss of the benefits and protections under those agreements. There is no reason why the exclusive representatives of the current SSA employees should not continue to represent those employees who are transferred to the new independent agency.

To the extent that the current SSA employees will be employees of the new independent agency and performing the same functions, AFGE believes that it is in the interest of the public, the agency, the employees, and their exclusive representatives to (1) retain existing bargaining units, (2) continue recognition of exclusive representatives, and (3) continue in full force and effect all collective bargaining agreements as well as mandate the continuation of any negotiations which are currently being undertaken between SSA and exclusive representatives. This can be accomplished by implementing the following three changes:

(1) Amend Section 102 to provide that however the Board chooses to establish organizational units, where there is a community of interest which existed prior to the establishment of the new independent agency which was. the basis for the determination of an appropriate unit for representation, that community of interest shall be the basis for the continuation of such unit.

(2) Amend paragraph 105 to provide that current exclusive representatives shall continue to represent the employees who are transferred to the new Agency. In other words, make clear that the status quo shall remain with respect to representational rights under Chapter 71 of Title 5.

(3) Amend paragraph 105 to provide that all collective bargaining agreements in effect shall remain in effect and be binding upon the Administration and that where negotiations are currently underway, they shall continue between exclusive representatives and the new Agency.

Again, we wish to express our appreciation to the Committee for moving forward so quickly in this 101st Congress to establish SSA as an independent agency, and to provide for annual earnings and benefit statements. It is our desire to have SSA established as an independent agency and we believe that this can be accomplished in a manner which also provides clear employee protections. Thus, we look forward to working with the Committee to develop the provisions necessary to adequately address the concerns we raised above, thereby protecting the employees of SSA and working toward assuring the integrity of the existing merit principles upon which the civil service system is founded.

Thank you for the opportunity to appear here today and to present the views of AFGE on S. 216 and S. 212. I would be happy to respond to any questions the Committee might have.

PREPARED STATEMENT OF LOUIS W. SULLIVAN

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to discuss S. 216, which would make the Social Security Administration (SSA) an independent agency in the executive branch. All of us can agree that the goal of SSA should be to provide high-quality service to the American public. The question before you today is whether making SSA an independent agency would be the most efficient and effective means of attaining this goal. The answer to that question is clearly "no."

To provide the most effective and efficient public service, it is critical that SSA keep its energies clearly focused, be well managed and motivated and meet the needs of its employees. This has been and can continue to be done within the Department of Health and Human Services (HHS). Independent agency status would

not make the task any easier and, indeed, is squarely against recognized concepts of good management.

Further, separating SSA from HHS would undercut the President's role as manager of the executive branch, would weaken important links with other HHS agencies, and would eliminate many administrative economies inherent in a large Government department. Consequently, the Administration strongly opposes making SSA an independent agency.

In the remainder of my statement, I would like to discuss the impetus behind the independent agency movement over the years and the consequences of making SSA independent.

BACKGROUND OF INDEPENDENT AGENCY CONCEPT

The Social Security program was administered in its first years as an independent agency, but by 1939, before actual payment of monthly benefits began, it became an integral part of the Federal Security Agency (FSA), the forerunner of today's Department of Health and Human Services. The FSA was established to group agencies with related missions under common leadership in-order to coordinate policy-making, management, and operations.

It was recognized that it was impractical to expect the President to manage directly all the major programs and agencies of the Federal Government without having them grouped under Cabinet officers.

Proposals to reestablish SSA as an independent agency arose in the 1970's as a result of a concern on the part of some that Social Security policy decisions were being dictated by partisan political and short-term budgetary considerations and that SSA faced serious systems and organizational problems.

Social Security amendments enacted in 1983 established a Joint Study Panel of three experts to recommend how an independent SSA could be implemented. As you know, the panel did not address the pros and cons of an independent Social Security agency. Rather, as required by its statutory mandate, the panel dealt extensively with the various administrative and organizational issues that would arise if SSA were established as an independent agency and specifically cautioned that the panel's recommendations regarding how an independent agency might be structured should not be interpreted as an endorsement of the concept.

Since the panel issued its report, bills to make SSA independent have been considered in each recent Congress—although none has been enacted. I suggest as a reason the fact that there is no evidence indicating that making SSA independent would improve its capacity to do its job more effectively.

INTENT OF INDEPENDENT AGENCY ADVOCATES

The history of the independent agency movement indicates that its sponsors have wanted to accomplish two things—(1) insulate the Social Security program from possible political or budgetary pressure, and (2) improve the quality of service the Agency provides. In reality, the Social Security program has become so large—21 percent of Federal expenditures in fiscal year 1989—and so visible—39 million people receive benefits and 130 million pay Social Security taxes—that it is not possible or desirable to restrict debate about changes in the program.

Moreover, I believe that there is broad bipartisan agreement that changes in Social Security should be evaluated on their merits and not be advanced for budgetary or partisan political purposes. The bipartisan support that produced the historic 1983 Social Security amendments is a model for how Social Security issues should and will be handled in the future. I believe this bipartisan model should be used to address all important policy questions—for example, how Social Security programs are reflected in the budget, how the Social Security trust funds are counted for Gramm-Rudman-Hollings deficit reduction target purposes, and how trust fund balances are invested. Making SSA an independent agency would have no effect on how these issues are raised and handled in the political arena.

From a public service perspective, SSA's performance overall in getting its work done is significantly better today than it was a few years ago. With the help of systems modernization and streamlined processes and procedures, SSA generally has eliminated its work backlogs and now provides quicker, more accurate service to beneficiaries. The improvements SSA has made in the quality of service it provides and the efficiency the Agency has achieved rebut arguments that independent agency status is essential for administrative or operational reasons.

DISADVANTAGES OF MAKING SSA INDEPENDENT

On the contrary, there are clear disadvantages to establishing SSA as an independent agency.

First, I would note that S. 216 purports to establish SSA as an "independent agency" with limited executive branch accountability. In this respect the bill is a direct affront to the role of the President as Chief Executive and undermines his ability to develop coherent economic and social policies for the Nation.

Independent agency status would have costs to SSA and the public. Establishing SSA as an independent agency would weaken important links between the Agency and the President and between SSA and parallel agencies within HHS. These links are valuable to SSA and to the public it serves.

As a Cabinet member, the Secretary of HHS reports directly to the President, who is, in turn, directly accountable to the electorate. The President and the Secretary of HHS are thus in an excellent position to provide policy leadership on Social Security issues. Moreover, the independent agency proposals under consideration would weaken SSA's ties with executive branch support agencies under the President's leadership. Those agencies have the expertise and resources to help SSA with its space and procurement needs, in the case of the General Services Administration, and personnel needs, in the case of the Office of Personnel Management.

SSA also benefits from its close ties to other agencies under the HHS umbrella. As you know, many agencies in HHS are concerned with issues closely related to those dealt with by SSA. To name a few, the Administration on Aging funds social services for the elderly, the National Institute on Aging is concerned with health programs for the aged, and the Health Care Financing Administration's Medicare and Medicaid programs are vital in providing health care to older citizens and persons with disabilities.

SSA is particularly close to the Health Care Financing Administration (HCFA), since OASDI and Medicare share many eligibility and coverage provisions and their recordkeeping processes are highly integrated. Likewise, SSI and the Medicaid program share certain eligibility requirements and procedures. Service to beneficiaries under all of these programs could suffer if an organizational change made it more difficult for SSA and HCFA to coordinate both policy and operations.

Local Social Security offices also serve as a "one stop shop" for the elderly. Typically, beneficiaries of Social Security benefits receive information regarding the Medicare program through their local Social Security office. Local offices also perform outreach, providing local community groups with opportunities to learn about Social Security and Medicare programs.

Moreover, as the catastrophic health insurance program is implemented, these links between Social Security programs and Medicare will become more important. The Department's Catastrophic Coordinating Committee is currently involved in planning the implementation of this new program. The Social Security Administration and the Health Care Financing Administration are represented on this committee, allowing for important cross-agency coordination and communication.

The vital link forged between SSA and other HHS agencies will become more critical in the future. As the aging of the baby-boom generation occurs, more policy and service coordination between the agencies will be necessary, and there will be a growing need to coordinate the cash payments provided through the OASDI and SSI programs with the health and social services provided through all parts of HHS.

The programs administered by SSA also impact our youngest citizens. At the end of fiscal year 1988, children accounted for 9.2 percent of all disability insurance beneficiaries. Similarly, by the end of fiscal year 1988, 4.8 percent of all retirement and survivors insurance benefits were paid to children. Benefit payments to those children totaled approximately $11 billion in FY 1988.

Due to either disability or the death of a parent, Social Security's child beneficiaries are among those who are particularly reliant upon the services and programs available through the HHS network. Both the Head Start program and the Administration on Developmental Disabilities may provide targeted assistance to disabled children. Children of deceased workers might also receive cash assistance through the Aid to Families with Dependent Children (AFDC) program. The Supplemental Security Income program (SSI) also provides assistance to children. Approximately 290,000 blind and disabled children were receiving SSI payments at the end of 1987. Entitlement to OASDI and SSI child's benefits also allows our youngest citizens to access the Medicare and Medicaid programs.

SSA also serves as a primary gateway to information concerning other programs. SSA is an especially key contact point for younger beneficiaries who may not be receiving the wide range of information about benefits the aged receive from private

organizations. Any breakdown in SSA's gateway function to other HHS programs would prove detrimental to both older and younger beneficiaries.

In addition to the administrative disruption, another practical consideration is that removal of SSA from HHS would eliminate many of the administrative economies inherent in a large Government department, requiring expenditure of trust fund monies for the establishment of duplicative and expensive payroll, personnel, and other support structures now operating efficiently in HHS.

DISADVANTAGES OF A PLURAL EXECUTIVE

The fact that independent status would in no way help SSA do a better job and would create serious new problems for the Agency are sufficient reasons to oppose S. 216. However, the bill is fatally flawed in creating a bipartisan, three-person executive to head SSA. In 1984, the Congressional Research Service (CRS) prepared an extensive report to the Congressional Study Panel on making SSA independent. Based on considerable research, the report stated that ". . . the concept of the plural executive to administer executive agencies has never enjoyed wide support." The report notes that George Washington observed early in our Nation's history that ". . . whatever, and whenever one person is found adequate to the discharge of a duty by close application thereto it is worse executed by two people, and scarcely done at all if three or more are employed therein."

The history of the three-person Social Security Board in the 1930's is a case in point. A detailed account of the Board's experience reviewed in the CRS report concluded that "By the end of March 1937, only one major administrative conclusion appeared clearly warranted: namely, that the Board structure was inadequate for operating the Social Security program."

A bipartisan board to head SSA is a prescription for indecision and inaction just when the Agency is making strong forward strides in the service it provides the American people. Independent agency status would cause serious problems for SSA; a plural executive would almost certainly prove as ineffective as the initial Social Security Board. The 1984 Congressional study Panel addressed this issue and recommended that SSA, if made independent, continue to be headed by a single Administrator.

The General Accounting Office has also testified repeatedly that it believes the more effective form of leadership for an independent SSA to be a strong single Administrator at the head of the Agency, assisted by an advisory board on policy matters that would have no role in SSA operations.

In addition, S. 216 provides for an SSA Executive Director, appointed by and primarily responsible to the 3-member board. In contrast to current law, administration of the Social Security program would be carried out by an individual selected without either the advise and consent of the Senate or nominated by the President. The nation's largest domestic program would be run by an individual neither accountable to any elected official or the American people.

A Social Security Administration governed by a 3-member board also raises questions regarding the constitutionality of the legislation. In particular, the Administration is concerned by Section 101(b)(i) of the bill which states that the President would be able to remove members of the Board only for "neglect of duty or malfeasance in office."

An attempt to limit executive branch oversight of SSA's statutory duties and responsibilities, by restricting the President's removal authority, raises serious separation of powers concerns. Restrictions on the President's removal power over such Officers impede the exercise of the President's constitutional obligation to "take Care the Laws be faithfully executed." (U.S. Constitution, Article I, Section 3.)

The bill also directs the Board to report on certain matters to both the President and Congress and to report with respect to other matters exclusively to the Congress. These concurrent reporting requirements also raise serious practical and constitutional concerns.

ADMINISTRATION POSITION ON INDEPENDENT AGENCY LEGISLATION

For the reasons I have discussed, the Administration strongly opposes legislation to make SSA an independent agency. We do not believe that taking SSA out of the Department of Health and Human Services would help SSA accomplish its mission, and such a change could seriously hinder close coordination in the delivery of related Federal programs to the public.

PERSONAL EARNINGS AND BENEFIT ESTIMATE STATEMENTS

Mr. Chairman, you have also requested that I comment on S. 212, which would require that SSA implement in three phases a program to mail personal earnings and benefit statements to all workers. As you know, Commissioner Dorcas Hardy announced in August 1988 an SSA initiative to provide personalized earnings and benefit estimate statements to all workers upon request. Thus far, over 10 million workers have asked for the form to request an earnings statement and over 5 million workers have returned the completed request.

This new statement serves three vital purposes:

• First, it lets people examine and, if necessary, correct their earnings records promptly. The new statement contains a year-by-year display of a worker's earnings from 1951 through the most recent year. This detailed information allows a worker to make sure that his earnings record is correct, so that his future benefits will be based on all his covered earnings.

• Second, it provides workers with comprehensive benefit estimates, putting a dollar and cents value on the full package of protection that Social Security offers.

• Third, the statement helps people do their own financial planning. They learn what to expect from Social Security and are in a better position to plan supplemental sources of retirement income.

The form contains disability and survivors benefit estimates; retirement benefit estimated for reduced benefits, benefits at normal retirement age, and benefits at age 70; and the number of credits the worker needs to be insured for all types of benefits.

There are two basic reasons why earnings statements are currently available only upon request, rather than to everyone, as S. 212 would require. First, SSA's systems of records have current addresses for beneficiaries, but not for people still working. This is a concern not only because some workers might not get their statements, but also because mail delivered to the wrong address increases the potential for confidential personal information to get into the wrong hands. Second, there is concern that benefit-estimates based on automated projections of future earnings might be much less reliable, particularly for workers many years away from retirement age, than benefit estimates based on the workers' own projections of future earnings. In addition there is concern that workers who do not request benefit estimates may not use the information sent to them to check their earnings or learn about Social Security. The Department may then be in a position of expending resources that might be used more effectively in other public information efforts. Allowing workers who request benefit estimates to provide their own estimates of earnings and the address to which the statement should be mailed avoids both problems.

Mr. Chairman, we are continuing to explore alternatives for issuing SSA-initiated statements. The objective is a process that will give the public the information it wants and can most readily use, will distribute the statements in a manner that safeguards confidentiality and yet is as cost-effective as possible, and will keep SSA workloads manageable. To achieve this, we believe strongly that we must test the various options fully before settling on a final design.

Because no statement content or distribution methodology is clearly without problems, SSA plans to conduct several tests beginning with the first one this July to focus on those issues. We are concerned about confidentiality even during the test modes, so one version will use blank forms rather than personal information to test the reliability of the addresses. Other tests will involve distribution of statements through several large employers with whom we will negotiate special arrangements for safeguarding the information released to the individual SSN holders. We will be happy to provide information regarding the results of the tests as they are conducted. We believe, however, that it would be inadvisable to enact legislation requiring statements to be sent to all workers before we assess the impact of our current efforts and ways are found to secure good addresses, to ensure the privacy of the information, and to estimate earnings in future years.

CONCLUSION

In conclusion, I would reiterate that the Bush Administration, like prior Administrations of both Parties, strongly opposes separating the Social Security Administration from the Department of Health and Human Services and making it an independent agency.

In regard to benefit statements, we are assessing our current approach of providing combined earnings and benefit estimate statements to those who request it, and we are testing alternative approaches designed to provide wider dissemination of the information. We want to ensure that resources directed toward providing this

information are well used, both in terms of accurately crediting wages and in alerting the public about Social Security benefits. We therefore oppose legislation at this time.

PREPARED STATEMENT OF DONALD WALSH

The Canada Pension Plan Administration recognized a need to better inform the public and in 1983 conducted a pilot project to assess their reaction to an information package which included a "statement" of credits paid to date, pension calculation estimates, and descriptions of the various pensions payable.

More than 91% of the recipients surveyed indicated that they intended to retain the documents for future reference.

As well more than 75% stated that the documents were informative and helpful.

C.P.P. CONTRIBUTOR INFORMATION PROJECT TELEPHONE SURVEY—OVERVIEW

1. Number Pilot:

Statement only	3,138
Statement and Terms & Conditions	3,138
Total	6,276
Undeliverd	314 (5%)
Delivered	5,962
No. of completed interviews	3,861
No. of refusals	46 (1%)

2. Retention of Documents:

	Yes	No
Kept statement	91%	9%
Kept terms conditions	92%	8%
Read statement	65%	35%
Read terms and conditions	55%	45%
Benefit information on statement—useful	77%	18%
Awareness of CPP Benefits		
Retirement	69%	
Disability	30%	
Survisors	30%	
Childrens	22%	

3. Helpfulness of Documents:

	Very helpful	Helpful	Not helpful	No opinion
Statement	41%	45%	7%	7%
Terms and conditions	40%	38%	5%	17%
Terms and conditions (Age 40–63)	49%	30%	4%	17%

In view of the positive response to the pilot project the Canada Pension Plan Administration implemented a "contributor information programs" in 1985.

The "primary" purpose of this program was to encourage the public's involvement with the Canada pension plan.

It's objectives were:

—to provide advice and information to all contributors regarding the Canada Pension Plan;

—to promote an understanding and awareness of the significance of their contributions as they relate to potential benefits,

—to make contributors aware of the importance of ensuring that their earnings and contributions records are accurate and complete; and

—to ensure that benefits are applied for.

The pension entitlement estimates shown on the "contributors statement" are calculated using actual figures only and reflect a pension value that would be payable as of the date that the "statement" is issued.

The Canada Pension Plan Administration has refrained from attempting to project earnings and pension estimates over a lifetime due to the many variables involved, and more importantly did not want to mislead the individual into a false

sense of security that may not materialize if changes occurred in the employment pattern.

The Canada Pension Plan, "contributor information program," has just completed it's fifth year of operation in march 1989.

In total more than 17 million "statements" have been sent to contributors between the ages of 20 and 92. Most of the contributor population have now received two "statements". The program is designed to send a new "statement" every three to four (4) years.

A contributor still retain the right under the Canada Pension Plan legislation to request a statement of his credits once in am twelve month period.

Of the 17 million "statements" mailed to date, only slightly more than 700,000 were returned as undeliverable due to an incorrect address or death.

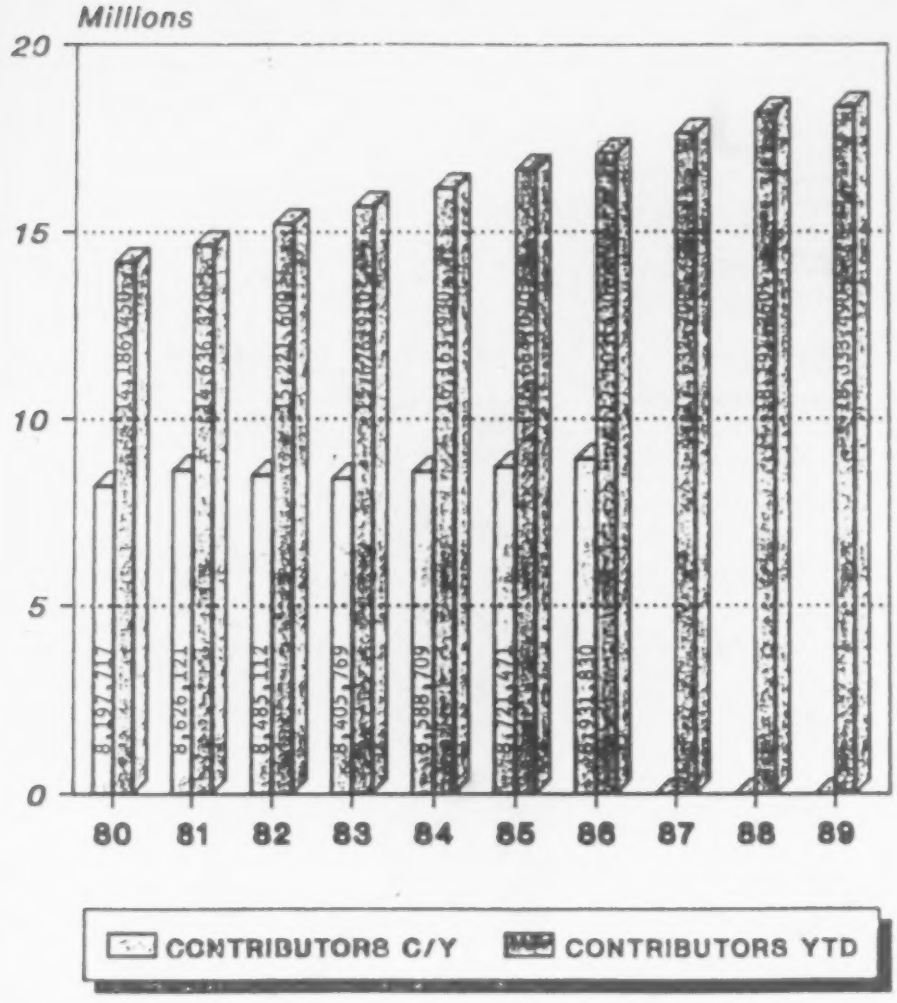
This program is also directly responsible for the more than 200,000 inquiries regarding pension entitlement, or requesting an investigation of missing or incomplete earnings and contributions information.

Although the Canada Pension Plan Administration has not conducted a formal survey during the past five years, it is reasonable to conclude that the contributor information program has been well-received by the general public.

It is generally agreed that the contributor information program has achieved it's stated objectives.

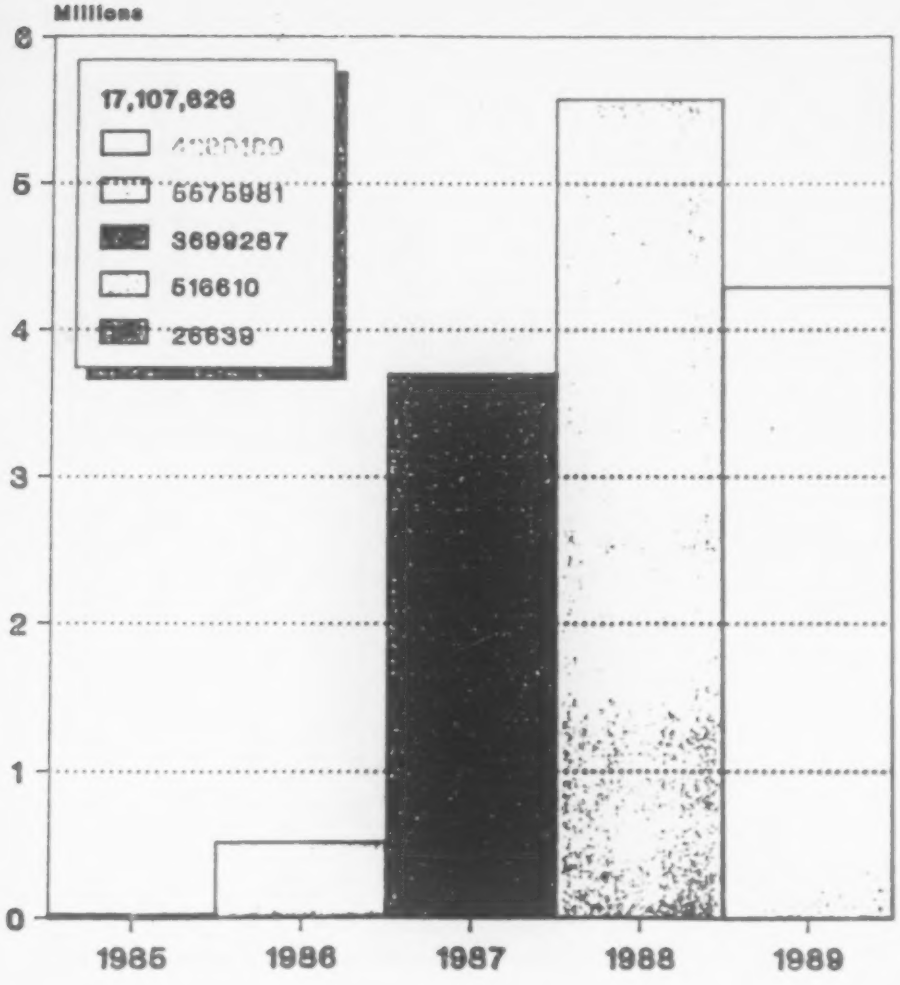
At the present time the department of National Health and Welfare (Canada) has no intentions of ceasing this program.

CONTRIBUTOR INFORMATION PROGRAM
NUMBER OF CONTRIBUTORS



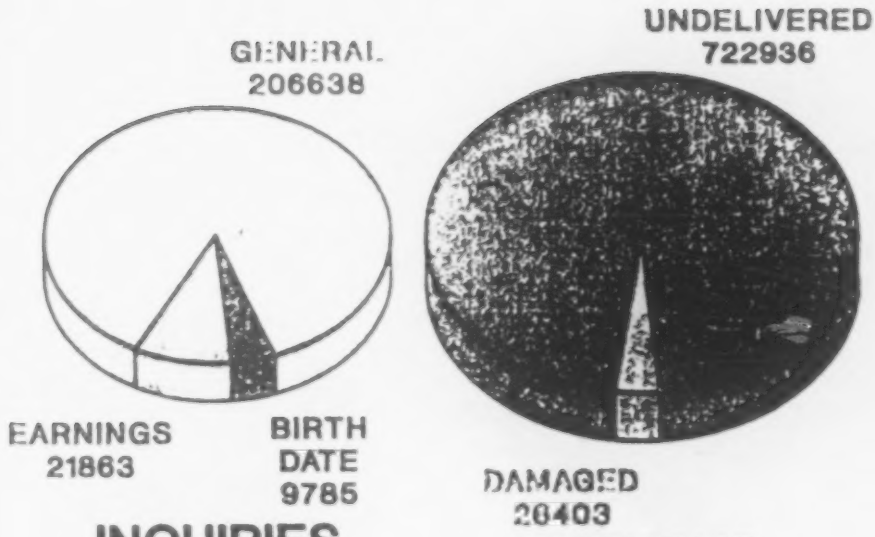
CONTRIBUTOR INFORMATION PROGRAM

"STATEMENTS MAILED"

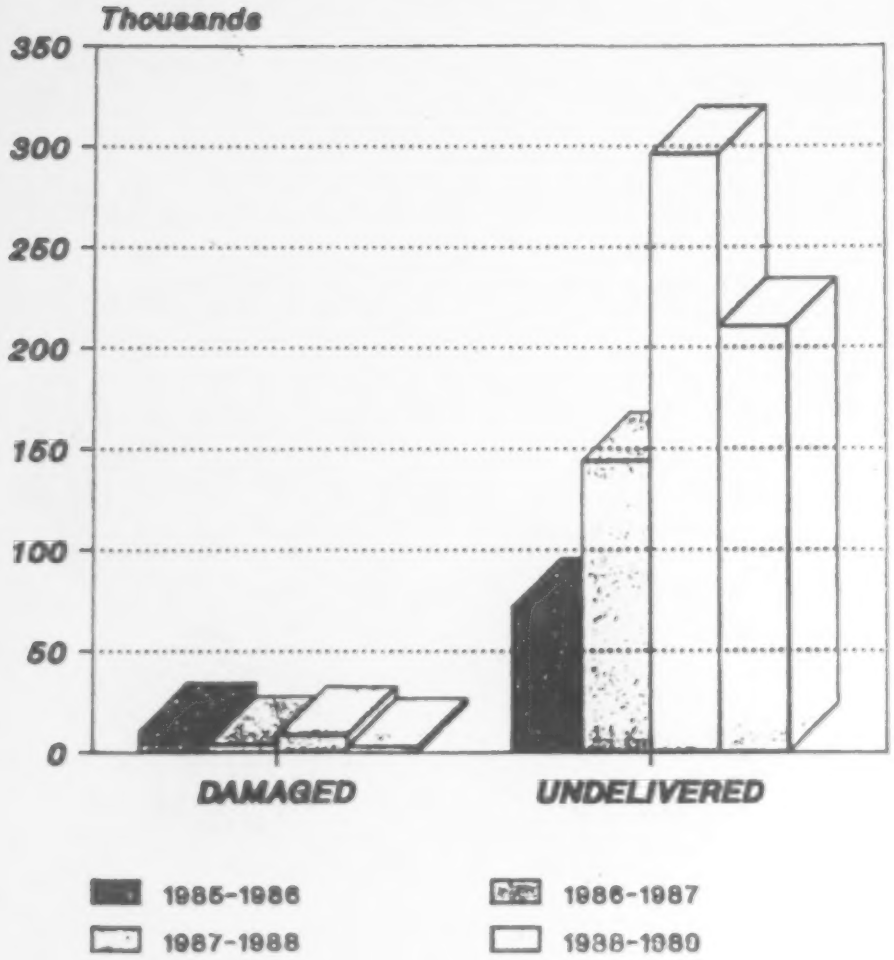


INQUIRIES - RETURNS

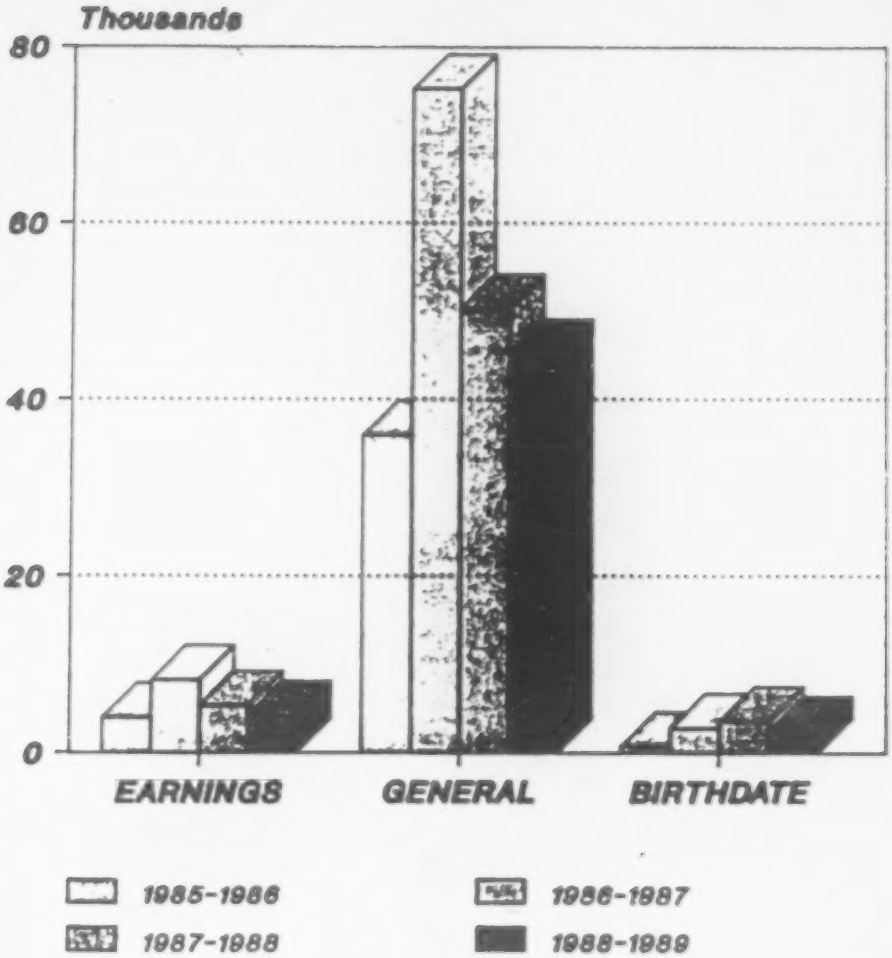
1985 - 1989



C.I.P.
RETURNS


Thousands
350
300
250
200
150
100
50
0
DAMAGED
UNDELIVERED
1985-1986
1986-1987
1987-1988
1988-1989

C.I.P.
INQUIRIES



SUMMARY OF COSTS
1981 - 1989

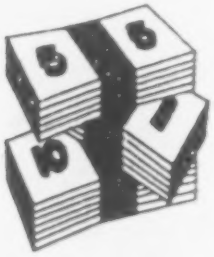
THE TOTAL OF KNOWN COSTS FOR THE CONTRIBUTOR INFORMATION PROGRAM IS $8,348,577.

THE COSTS OF THE VARIOUS ELEMENTS ARE:

- PROGRAM DEVELOPMENT ---------- $ 375,000

- POSTAGE ---------- $ 5,351,740

- PRINTING/PURCHASE OF FORMS/ENVELOPES ---------- $ 2,011,900



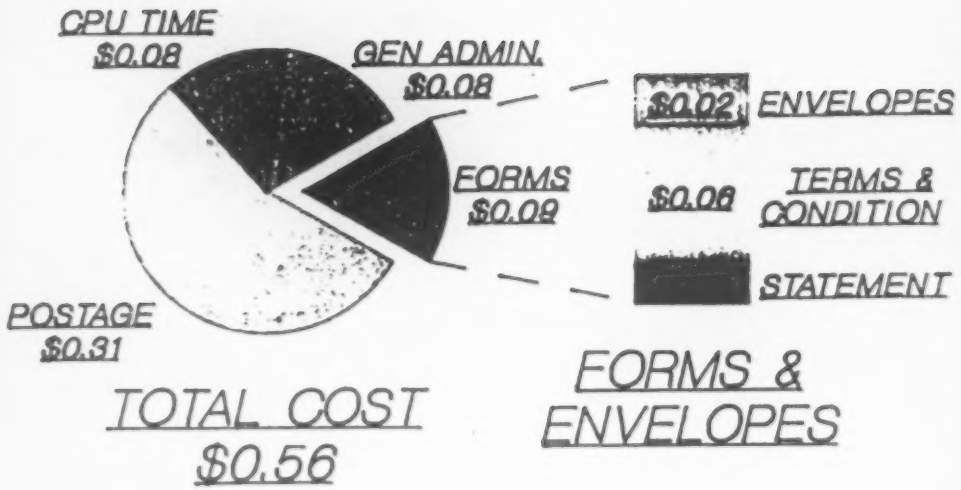
COST PER STATEMENT

1988/89

DURING THE FISCAL YEAR 1988/89 MORE THAN FOUR MILLION, (4,289,109) "STATEMENTS" WERE MAILED TO CONTRIBUTORS.

THE TOTAL COST PER "STATEMENT" WAS APPROXIMATELY $0.56 CENTS OF WHICH $0.31 CENTS WAS FOR POSTAGE. (SEE NEXT PAGE)

UNIT COST
ANALYSIS



COMMUNICATIONS

STATEMENT OF THE NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman and Members of the Subcommittee:

I am Robert M. Tobias, National president of the National Treasury Employees Union. NTEU is the exclusive representative of over 140,000 Federal workers including all Social Security Administration employees in HHS regional offices, and attorneys in the Office of Hearings and Appeals. I am pleased to have the opportunity to testify today on H.R. 791, which would create an independent Social Security Administration.

NTEU strongly supports the establishment of SSA as an independent agency. The Social Security Administration manages a program that is of vital importance to most Americans. Over the past eight years, public confidence in Social Security has greatly declined because of arbitrary and capricious budgetary and policy directives imposed on the agency.

The current Administrator of Social Security has been pushing forward with a foolhardy plan of reducing SSA employees by 17,000 positions over six years. This plan, which was recommended by the Grace Commission and imposed by OMB, is a calculated assault on the machinery that serves millions of senior citizens and needy Americans. The theme of "SSA can do more with less" makes a mockery of the dedicated service of thousands of SSA employees who are enduring increased workload pressures and face disruption of their careers.

Surveys taken both by GAO and by SSA itself have shown steadily declining staff morale. GAO surveyed SSA employees about the effects of staff reductions, and found that 56% believed the losses they had experienced had a negative effect on the ability of their units to produce quality work. The most frequently mentioned effects were larger workloads for remaining staff to process, lower morale and more stress, apathy, frustration, backlogs, untimely processing of workloads, and tasks inappropriate to grade level.

In August, 1987, SSA distributed a 39-item opinion poll to its 9,000 supervisors and managers to assist in "gauging the morale and communications needs of SSA's managerial workforce." The response rate to this mailout was 55%. Dissatisfaction with SSA's downsizing process was expressed by 67% of the respondents, with operations managers (70.8%) more dissatisfied than staff supervisors (58.2%). About one third (1/3) of respondents said they rarely leave the office with a sense of accomplishment and less than one-fourth recommended SSA as a good place to work. A majority of managers (76.9%) said SSA was not a better place to work than it was a year ago. Only one in ten believed that things would improve.

SSA's management of staff reductions has been particularly abysmal in the Program Service Centers (PSC's). These Centers have borne significant staff cuts, as well as upheaval in the critical Claims Authorizer (CA) positions, caused by shifting final claims authorization from PSC's to district offices. The most complex and error-prone cases, that were formerly handled by CA's, have been thrust upon District Offices which lack the experienced and trained people to handle this additional workload. In 1987, NTEU said that this policy—called DOFA, for District Office Final Authorization—would only lead to higher rates and overpayments. This and more has been borne out by the GAO.

GAO, in its report *Payment Accuracy Rates Are Overstated*, (NRD 88-10) documented the magnitude of the error rate problem. They found the error rate to be twice what SSA is reporting, with errors affecting one out of every eight beneficiaries for an average of five years, and costing the trust funds $1.1 billion a year, compared to SSA's $600 million estimate.

A main reason for the error rate difference between SSA and GAO is that SSA doesn't count underpayments. About 60% of all cases in error are underpayments,

and those errors work hardships on retired workers. GAO found that over one million Social Security recipients are being shortchanged an average of $36.60 per month.

SSA staff reductions and mismanaged modernization efforts are costing over a million senior citizens on fixed incomes a bag of groceries a month. They are costing the Social Security trust funds $1.1 billion annually. And they are taking a priceless toll on the thousands of dedicated employees who sincerely want to serve this country's Social Security recipients effectively and efficiently, but are thwarted in their efforts by a meat cleaver approach to budget reduction. It seems to me that this is a senseless way to run one of the most important programs in the nation.

The passage of H.R. 791 cannot, by itself, resolve all of these very serious problems. The creation of an independent SSA, however, would be a vital first step in reversing the trend of the last eight years.

H.R. 791 would create a 3 member, bi-partisan board, serving for staggered six year terms to direct and oversee the functions of the Social Security Administration. The Board would appoint an Executive Director, who would serve as chief operating officer for the agency, for a four year term. Since 1973, SSA has had 10 Commissioners or Acting Commissioners, at least one of which was removed from office for attempting to defend the agency from the Administration's assault of staff reductions. The management structure provided in H.R. 791 would provide badly needed continuity in leadership at SSA, and help to prevent the removal of high level officials for attempting to do their jobs.

H.R. 791 would also provide the new Social Security Administration with demonstration project authority to perform certain management functions currently controlled by the Office of Personnel Management (OPM) and the General Services Administration. (GSA) The Board would have authority to test the new agency's capacity to recruit, compensate, and mange personnel, and to acquire and maintain facilities and automated data processing equipment. We believe that language should be added to the bill to make these demonstration projects subject to collective bargaining. With that addition, we wholeheartedly support these provisions.

NTEU believes that the Federal Government should decentralize its personnel practices, and give the individual agencies much of the authority for recruitment, pay, and management that is currently in the hands of OPM. The personnel demonstration projects contained in H.R. 791 would both move SSA in that direction, and if successful, serve as a government-wide example of the feasibility of decentralization.

Earlier in this testimony, we cited GAO and SSA surveys that showed low morale and frustration on the part of SSA managers and rank-and-file employees. NTEU believes that the demonstration authority provided in this legislation provides a unique opportunity for resolving these problems. Labor and management, working together toward a shared goal of service to the public, will be able to realistically address the needs of the agency and its workers and take steps to meet those needs, even within the climate of budget restraint that will continue to be a factor for years to come. NTEU would welcome the opportunity to work with the leaders of an independent SSA to address the problems of the agency in an effective, and fiscally prudent manner.

The personnel provision of H.R. 791 would also allow the SSA Board to implement innovative policies that would also improve both the agency's ability to serve its clients and employee morale and advancement. For example, for several years, NTEU has been working with SSA to revise the criteria for appointment to Administrative Law Judge (ALJ) positions, so that SSA staff attorneys in the Office of Hearings and Appeals could be promoted to these positions.

In October 1984 Congress endorsed the idea that SSA attorneys serve as ALJs, and directed the Secretary of Health and Human Services to submit a report to two Congressional committees on actions the secretary had taken to achieve this goal (P.L. 98-460, Section 13). The original version of the legislation, which was approved by this subcommittee in the 98th Congress, would have forced OPM to appoint SSA attorneys with seven years experience in the area as ALJs. Congress chose not to force this action on OPM after OPM represented to SSA and Congress that changes in the selection criteria were made which would enable SSA attorneys to attain ALJ positions.

In the summer of 1987, for the first time since 1983, OPM solicited applications from attorneys interested in becoming ALJs. Many staff attorneys applied for the position at that time. When OPM's basic ratings of all candidates were released in March 1988, SSA attorneys and agency officials were surprised to find that OPM had not effectively revised its criteria as promised. OPM gave SSA staff attorneys, as a class, such low ratings that few will be selected as judges, despite the extensive

experience in social security law many of them hold. Many other applicants with no experience in SSA law received much higher ratings by OPM. In October 1988, the current Social Security Administrator wrote to the Director of OPM urging that the ALJ selection criteria be revised. The OPM Director refused this request.

NTEU feels strongly that Social Security claimants should have their cases reviewed by the most qualified people possible. We believe that many OHA staff attorneys have the qualifications necessary to be effective ALJ's, and that it violates both common sense and the will of Congress for OPM to unilaterally deny these attorneys the ability to advance to ALJ positions. The Board could utilize its demonstration project authority to experiment with promoting staff attorneys, and the Comptroller General, with the authority provided in H.R. 791, could review the experiment and insure that claimants receive fair treatment from these new ALJs.

The demonstration project authority allowing the SSA Board to contract for automated data processing equipment will also help to resolve some of SSA's current problems. Much of the reduction of personnel that has taken place at SSA has ostensibly been linked to office automation and systems modernization. This is in spite of the fact that those efforts have fallen greatly behind schedule, and new computer systems are being brought into severely understaffed offices with workers who can barely meet the existing workload. Little or no training has been provided to staff on the new computer systems. When new equipment is introduced it generally follows that productivity temporarily declines while training is taking place. No accommodation has been made for this, or for the fact that there is not enough time for the overworked staff to complete routine work and learn the new systems. If one entity, the Board, has authority over both personnel and systems management, we are likely to see more coordination between modernization and staffing needs. This can only improve services to the public.

NTEU believes that Section 105(b) of H.R. 791 should be amended to insure that existing collective bargaining agreements be carried over to the new agency, and not be subject to change or modification by the board during the remainder of their current terms. In both the law creating the Department of Education (PL 96-88, 20 USC 3505(a)) and the law creating the Department of Veteran's Affairs (PL 100-527, Section II), language is included allowing changes in pre-existing agreements only in accordance with current law. This simple change will insure that the Board cannot arbitrarily alter existing agreements.

In conclusion, we believe that the passage of H.R. 791 would go a long way toward remedying the major deficiencies in SSA's ability to render responsive caring service to the public. It would also greatly enhance employee morale and pride in service. NTEU is willing to work with you in any way necessary to help insure enactment of this important legislation.

22-116 (108)